



USAID
FROM THE AMERICAN PEOPLE

**Hydropower Investment
Promotion Project (HIPP)**

ASSESSMENT OF THE DRAFT AUCTION RULES

AUGUST 2013

Wednesday, August 21, 2013

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting

ASSESSMENT OF THE DRAFT AUCTION RULES

AUGUST2013

USAID HYDROPOWER INVESTMENT PROMOTION PROJECT (HIPP)
CONTRACT NUMBER: EEM-I-00-07-00005-0
DELOITTE CONSULTING LLP
USAID/CAUCASUS OFFICE OF ENERGY AND ENVIRONMENT

DISCLAIMER:

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

This document was prepared by:

Author	Organization	Contact Details
Zviadi Gachechiladze	Deloitte Consulting LLP	zgachechiladze@dcop-hipp.ge
Reviewer	Organization	Contact Details
Dan Potash	Deloitte Consulting LLP	dpotash@deloitte.com

TABLE OF CONTENTS

1.0	Acronyms	4
2.0	Background and Key Points	5
3.0	Definitions	6
4.0	Detailed Comparison Auction Rules	7
5.0	HIPP's comments to the draft Capacity Auctioning Rules	12
6.0	Conclusion	14
7.0	Annex A: Draft Auction Rules proposed by HIPP	15
8.0	Annex B: Draft Auction Rules proposed by GSE	39

1.0 ACRONYMS

ATC	Available Transfer Capacity
CTR	Commercial Transfer Rights
CRA	Capacity Reservation Agreement
CBETA	Cross Border Electricity Trade Agreement
DAP	Day-Ahead Planning
ENTSO-E	European Network of Transmission System Operators for Electricity
ESCO	Electricity System Commercial Operator
EU	European Union
GEMM2015	Georgian Electricity Market Model 2015
GSE	Georgian State Electrosystem
GNERC	Georgian National Energy and Water Supply Regulatory Commission
HIPP	Hydropower Investment Promotion Project
IOA	Interconnection Operation Agreement
IT	Information Technology
MO	Market Operator
MoE	Ministry of Energy
NTC	Net Transfer Capacity
NTL	New Transmission Line
TSO	Transmission System Operator
TEIAS	Turkish Electricity Transmission Company

2.0 BACKGROUND AND KEY POINTS

The purpose of the report is to assess Georgia's proposed auction rules for the new cross-border transmission lines. The new power transmission lines are expected being put into operation with Turkey by the end of 2013 and perhaps with Armenia in 2014, where traders will vie for interconnection capacity in case of congestion through an auction process. Fair and transparent interconnection capacity auction rules are of the highest priority of Georgian power system. Georgia's perspective is that electricity market related rules, including interconnection capacity Auction Rules, play a critical role in investors' views about the viability of investing in the power sector in Georgia.

The Auction Rules should send a positive signal to investors, and should be consistent with European approaches, since Turkey has joined the Energy Community, and accessing European markets will require such harmonization. The critical consistency, for countries aiming to eventually join the energy community is compliance with specifications and procedures of the ENTSO-e, the European Network of Transmission System Operators for Electricity. Mainly the Auction Rules represent one of the critical baseline conditions needed to ensure that all trader have access to transmission capacity.

Under the GEMM2015 four working group were created: Grid Code, Legislative, Cross Border, and Market Development. Cross Border working group is concerned with international transmission connection. Representatives to this working group are from GSE, MoE, ESCO, Energo-pro, GNERC and HIPP, with GSE as lead developing the Auction Rules was a key responsibility.

The first draft of the Auction Rules were developed by the HIPP experts (see annex A), and passed onto the Cross Border working group. The draft included nine chapters and two appendixes. After receiving the document, GSE has prepared an initial version of Auction Rules based on the one proposed by HIPP, and delivered the document for review to the Cross Border working group. HIPP provided comments on the first draft of GSE's Auction Rules. After taking into account part of the HIPP's notes, GSE drafted and presented to the working group a 2nd version of the Auction Rules (see annex B), which consist of 14 articles, with no appendixes.

The objective of the next following chapters is to assess difference between the two drafts (HIPP's and GSE's) and examine GSE's version of Auction Rules in the regard of correspondence with European best practice and HIPP's recommendations.

A summary of the key points is presented below:

- Re-assess the exporting country concept in the Interconnection Operation Agreement (IOA). That would prevent any imports from Turkey in months when Georgia is the exporting country (which may be economically efficient depending on system and market conditions). The opposite is also true (if Turkey is the exporting country in any months).
- Priority levels – Renewable sources (such as new renewable generation) should get priority in the auctions. Some people argue that new thermal plants would be encouraged by having priority capacity rights, but this isn't a provision of the IOA (which says give priority to renewable energy).
- There should be a clearly defined cascade concept of CTR auctions, as follows: first there would be an annual auction of CTRs. Then, any unscheduled annual

CTRs would be included in monthly auctions. Then, any unscheduled monthly CTRs would be included in daily auctions.

- Put rules in place for daily auctions to maximize use of the interconnection.
- Permit CTR owners who paid for CTRs to receive auction revenue for resold CTRs.
- Define the firmness of CTRs; in other words, how certain are the right to capacity, and define what exclusions exist.
- There should be a provision for CTR owners to be refunded the CTR cost if the availability of the interconnection is restricted.
- More description of application process, bid format, process for contesting result would be helpful.
- The purpose of the auction is the economically efficient allocation of interconnection capacity.

The following sections offer a detailed analysis of the GSE Auction Rules and comparison to HIPP suggested Auction Rules, and a detailed recommendations.

3.0 DEFINITIONS

“Allocated CTRs” are those interconnection capacity rights the successful Bidder obtains upon publication of the Auction Results in form of Commercial Transmission Rights and for such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity.

“Auction” is the mechanism used to Allocate CTRs via explicit Annual, Monthly and/or Daily Auctions.

“Available Transmission Capacity” (“ATC”) is that portion of Net Transmission Capacity available for each phase of the allocation procedure and which shall be used for determining the volumes available in the Annual, Monthly and Daily Auctions after accounting for such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity.

“Commercial Transmission Right (“CTR”)” is the instrument that provides successful Bidders and such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity the right to use Interconnection Capacity for electricity transport expressed in MW for a specified period of time in the direction from Georgia to Turkey.

“Cross Border Electricity Trade Agreement (“CBETA”)” is agreement between Georgia and Turkey, which establishes the principles based upon which the parties undertake to facilitate commercial electricity trade through the Akhaltsikhe –Borcka interconnection line and upon which they, or such state entities as they may designate, shall negotiate the Interconnection Operation Agreement (IOA) and such electricity interconnection agreements as required for the efficient and mutually beneficial operation of the Akhaltsikhe –Borcka interconnection line.

“Clearing Price” is lowest Bid Price selected for award of CTRs at an Auction expressed in the national currency per MW per hour.

“Georgian Electricity Market Model 2015 (“GEMM2015”)” was developed by USAID through the HIPP and adopted by Ministry of Energy of Georgia as a core strategy to

help the country achieve its energy and social and economic development goal. GEMM2015 sets concept for creation of new electricity market model and electricity trade mechanism for Georgia.

“Interconnection Operation Agreement (“IOA”)” is an draft of international agreement concerning cross-border electricity Trade Via Akhaltsikhe-Borçka Interconnection Line, prepared to be signed between the Republic of Turkey and Georgia that establishes principles and obligations regarding the facilitation of Electricity Trade between the two countries, providing for the technical parameters of operation and maintenance of the Akhaltsikhe-Borçka Interconnection Line and in order to ensure implementation of transfers of such quantities of electricity allocated pursuant to the CBETA and based on those quantities anticipated in the agreements for the sale and purchase of electrical energy signed between Commercial Transmission Right (CTR) Owners

“Net Transfer Capacity (“NTC”)” is the maximum interconnection capacity, expressed in MW that can be transmitted from Georgia to Turkey compatible with security standards applicable in both Georgia and Turkey.

“Nomination” is a notification to the TSO and TEIAS by a CTR Holder and its Counterparty of the Schedules relating to the power expressed in integer value of MW which they want to use within the limits of the Capacity of the CTRs awarded to the CTR Holder.

“Secondary CTR Market” is the mechanism that permits the transfer of CTR(s) acquired at Annual or Monthly Auctions by a CTR Holder and automatic resale to Daily Auctions of the CTR(s) that have not been nominated for electricity schedules.

4.0 DETAILED COMPARISON AUCTION RULES

A comparative analysis between the two drafts is summarized in the table below:

Table 1

Draft Auction Rules proposed by HIPP	Draft Auction Rules proposed by GSE
Chapter 1 –Introduction	
<p>This chapter is consistent with ENTSO-E documents, and provides introductory orienting material. There is one difference with ENTSO-E provisions, namely, that any differences can be attributed to the lack of a day ahead or intraday market in Georgia and the fact that Georgia is not yet a member of ENTSO-E. In addition, there is a descriptive analysis of the main differences between the Turkey-Greece auction rule and proposed Georgia-Turkey auction rule:</p> <ol style="list-style-type: none"> 1. The Greece-Turkey auction is for both directions, unlike the IOA which defines only one exporter for a given month; Despite the IOA, HIPP assumes that import and export schedules are possible within a month. 2. Georgia-Turkey interconnection is asynchronous ; 3. New renewable projects have been granted long term allocation of the interconnection capacity. There is no same contractual allocation in the Greece-Turkey interconnection; 4. Composing the rules HIPP assumed that there should be three levels while setting priority groups: <ol style="list-style-type: none"> 1. New renewable projects, 2.Old renewable, 	<p>No such chapter, GSE's draft has Articles and not Chapters.</p> <p>In GSE's version instead of Introduction, there is article called General Provisions, which define the legal basis of the document, description, motivation and responsibility for participants.</p> <p>This article sets three priority group for auctioning NTL capacity:</p> <ol style="list-style-type: none"> a) Emergency export and import; b) Export from renewable source and plants built after 2010 (incl. HPPs) if started up less than 10 years ago and there is an Agreement on Transmission and Dispatch Services; c) Export of electricity generated by other power plants working in Georgia or export of electricity imported to Georgia (transit, re-export). <p>Capacity allocation through auction should be done according to the order of this list above.</p>

Draft Auction Rules proposed by HIPP	Draft Auction Rules proposed by GSE
<p>3. Other generation.</p> <p>5. CTR's that are not scheduled for transactions should cascade into shorter term auctions. CTRs are required to export electricity across the Interconnection. CTR holders may not sell CTRs to other entities except through the cascading process described in the document.</p> <p>6. Capacity allocation for transit would be established through a contracting process rather than through auctions</p>	
Chapter 2 –Definitions	
Definitions in the document are complete and fully corresponding to EU terminology.	Definitions are not complete, and, mainly, they don't correspond to EU terminology and thus with the definitions of the comparable Auction Rules.
Chapter 3 - Auction Rules	
<p>In this chapter there is:</p> <ol style="list-style-type: none"> General rules. Describes the requirements that Bidders must fulfill to participate in the Annual, Monthly and Daily Auctions, the Auction procedures, the awarding of CTRs, the conditions to access Secondary CTR Market, and the utilization of Allocated CTRs; Firmness of CTRs. Described firmness of offered CTRs and the conditions – responsibility of curtailment of CTRs and terms of compensation to CTR holders by TSO; Reporting requirement. Described requirement for TSO to report quarterly to GNERC on duration and cause of curtailment due to the safety of system operation. 	<p>No such article, per se</p> <ol style="list-style-type: none"> No firmness of the allocated capacity rights are defined; No compensation mechanism defined; No such reporting liability defined.
Chapter 4 –Auctions	
<p>The auctions described in this chapter are contemplated for the allocation of ATC at the Akhaltsikhe-Borchka interconnection in the direction of Georgia to Turkey. CTRs are offered in units of 1 MW, and provide the CTR Holder with the right to use Interconnection Capacity for electricity transport for a specified period of time. The chapter defines three auction type:</p> <ol style="list-style-type: none"> <u>Annual.</u> The NTC, set by mutual agreement of TEIAS and GSE, forms the basis for the Annual Auction. According to the rules TSO has right with the approval of GNERC, offer less Capacity in the Annual Auction than the maximum ATC and increase monthly, if it will improve utilization of the Interconnection, in regard to exports from HPPs. Also TSO (GSE) may, with the approval of GNERC, designate monthly blocks, Annual Base, Annual Peak, and Annual Off-Peak time periods for the Annual Auction. <u>Monthly.</u> TSO should offer full ATC left in the monthly auction. Monthly CTRs are offered as Products defined by TSO: <ol style="list-style-type: none"> Monthly base; Monthly Peak; Monthly off-peak; Other <u>Daily.</u> The amount of Capacity to be offered in the Daily Auction (hourly blocks) shall equal the Daily ATC minus any Annual and Monthly CTRs already scheduled into or from Turkey. <p>Subchapters of the chapter describes:</p> <ul style="list-style-type: none"> Fallback procedure in event of system 	<p>The Article corresponding to this chapter in GSE's document is Monthly and Annual Auction, contemplated for the allocation of ATC at all newly constructed transmission line (NTL), where conditions and terms are defined regarding annual and monthly auctions. Monthly auction will take place if for one month of one calendar year:</p> <ol style="list-style-type: none"> Some capacity has become available but it is not enough to satisfy the demand of all exporters belonging to the corresponding Priority Group; If the NTL Capacity is limited during a calendar year as a result of specific circumstances and the remaining capacity is no longer enough for any of the Priority Groups for a specific time, an auction will be announced for the period (calendar month(s) of a calendar year or days of the month) during which the limitation is in place. In this case, the capacities that have already been allocated to exporters will be annulled and a new auction will be announced for the capacity left after the limitation. <p>In addition, the article addresses the situation when an auction winner abandons its allocation right. In this case the capacity right is offered by Dispatch Licensee sequentially to the member of the corresponding priority group who offered the next highest price and who will agree to pay the final price (clearing price) fixed at the auction.</p> <p>This article doesn't address:</p> <ul style="list-style-type: none"> Daily auction, even if it is mentioned in the

Draft Auction Rules proposed by HIPP	Draft Auction Rules proposed by GSE
<p>disturbance, that sets procedures for TSO in case of IT system error;</p> <ul style="list-style-type: none"> • Auction website, that defines publications provided on the Auction Website; • Conduct of bidders, sets actions that bidders should refrain from (gaming, effect of competition, disrupt of auction proceedings, threaten transparency, fairness). TSO have liability to report to GNERC, for appropriate measures, for the behavior mentioned above. 	<p>General Provisions article;</p> <ul style="list-style-type: none"> • Conduct of bidders and Dispatch licensee reporting liability to GNERC in case of bridging the rules or unfair behavior of auction participants; • Fallback procedures in case of IT system disturbance <p>Provisions regarding web site are put together in the separate Article named: Auction Website.</p>
Chapter 5 - Participation Requirement	
<p>This chapter describes requirement and procedures for the following:</p> <ul style="list-style-type: none"> • Registration requirement – conditions for participation in auction • Participation application procedures – To start application procedures bidder must sign Statement of Acceptance and submit contact information as defined in appendixes. • Bank guarantees - TSO, in consultation with GNERC may request Bank Guarantees for Auctions and determine the required amount. Bank Guarantee form is shown in appendix; • Deregistration, temporary suspension and exclusion - A bidder may request TSO to have its CTR's become deregistered, and have a temporary suspension and exclusion, in order to terminate its participation in Auctions. Main prerequisite for this request is that bidder has fulfilled all obligations toward TSO, but wants to not participate. Additionally participation conditions at secondary market and usage of CTRs are determined for all cases defined above. <p>Auction registration and application is valid for consecutive auctions, but time by time, as required by auction, bank guarantee should be updated.</p> <p>Once submitted, the bank guarantee covers the participation of the Bidder in all forthcoming Auctions.</p>	<p>In this document part of the provisions of Participation Requirement is defined in respective articles: 1) Exporters applications; 2) Legal Consequences of Uploading an Application; Registration; Standard Agreement Conditions.</p> <p>Initial requirement to participate in the auction is that exporter should register at auction webpage and upload specific form filled (The form not provided yet in appendix). Application information and set of documents attached to this application being uploaded by exporters are defined in respective paragraphs of the article Exporters applications.</p> <p>Instead of signing statement of acceptance by exporter (as per Auction Rules proposed by HIPP), the article Legal Consequences of Uploading an Application, Registration, Standard Agreement Conditions sets that once uploaded all necessary document at the auction webpage, exporter confirms his agreement with the Auction Rules and by registering the application the exporter automatically becomes a party of a "standard Agreement" (not described in the document yet) on Participation in an Auction.</p> <p>No bank guarantees are required according to these Auction Rules, and; No deregistration, temporary suspension and exclusion conditions are defined.</p> <p>Unlike HIPP's draft, GSE's version states that exporter's auction registration shall be valid only for the particular Auction. When a new auction starts, exporter shall register again and from the very beginning go through all the procedures required.</p>
Chapter 6 - Auction Proceedings	
<p>Parts of the chapter are as follows:</p> <ul style="list-style-type: none"> • Auction Specifications - listed all information and products available at auction that makes up specification of the given auction; Bidder, who meet the requirements of the Auction Specifications and Auction Rules shall be considered in the Auction; • Annual auctions – specifications and terms of the auction; • Monthly auctions– specifications and terms of the auction; • Daily auctions– specifications and terms of the auction; • Bid format and bid limitation - Bids are submitted by the Bidder using a Bid File for each Auction. Bid File requirements are as follows: 1) max 10 bids, 2) The sum of requested capacities of the Bids for the relevant Product shall be less than or equal to the ATC of the Product and maximum CTR 	<p>Part of respective proceedings is highlighted in the following two articles Rules for Conducting Auction and Decision Making and Announcement of Auction Results.</p> <p>The Final Price shall be the lowest price per 1 MW offered by the winner participants.</p> <p>If more than one participant makes lowest bid and the volume left after the satisfaction of the participants that made the highest bid is not sufficient to satisfy the participants that made the lowest bid, then the available volume is distributed among the latter proportionally with their requirements.</p> <p>Auction results are published through public announcement, i.e. posting respective information on the website</p> <p>The above two articles are vague. There are no</p>

Draft Auction Rules proposed by HIPP	Draft Auction Rules proposed by GSE
<p>limitations per bidder, 3) Each Bid reflects Capacity in units of one (1) MW with a minimum of one (1) unit and increments of one (1) unit.</p> <p>Additionally in this subchapter bid format and limitations are determined. Appropriate forms will be able to be downloaded from the website.</p> <ul style="list-style-type: none"> • Determination of the auction results, with two section: <ol style="list-style-type: none"> 1) Procedures of awarding CTRs and calculation of clearing price, that equals to marginal bid price. If the ATC is reached with several Bids of the same price, the remaining Interconnection Capacity is distributed “pro-rata” in proportion to the requested Interconnection Capacity of the Bids. CTR Holders are not obliged to use the CTR purchased in the Auctions conducted by TSO; 2) Deadline for Contesting Results. 	<p>specifics about separate auctions on annual, monthly and daily basis, as well as bid formats, which are well specified in HIPPs version.</p> <p>Calculation process of the final price (clearing price) is the same in both document.</p> <p>The principle of recalculation of allocated capacity volumes (CTRs) in case when more than one applicant makes lowest price bids and there is no enough capacity to satisfy both of them, proportionate (pro-rata) distribution of interconnection capacity (CTR) are applied.</p> <p>Appealing procedures of the auction results are not set</p>
Chapter 7 - Secondary CTR market	
<p>This chapter justifies secondary market of CTRs and defines procedures for CTR holders to resale CTRs.</p> <p>All non-nominated Annual and Monthly CTRs shall automatically be included by the TSO for resale in the Monthly and Daily Auctions respectively</p>	<p>No relevant article in this document.</p> <p>No secondary market is allowed.</p>
Chapter 8 - Capacity usage rules	
<p>In order to use capacity, two notifications are is required:</p> <ol style="list-style-type: none"> 1) Notification to TSO of counterparties required for the Nomination consistency check by TSO. Nomination is done by CTR holders (auction winners). 2) CTR holder should designate its counterparty according to predefined terms for all: Annual, monthly and daily CTRs. <p>CTR holder loses capacity right unless following the requirements.</p> <p>The responsibility of TSO (Responsibility for schedule, request revise or reject nomination), and CTR holders (responsibility for proper nomination, revise of nomination) are formulated in case when CTR holder doesn't follow CTR usage rules or nominations by CTR holder and its counterparty doesn't match each other. In this case TSO reduces nominated schedule to minimum.</p> <p>If no valid nomination is submitted prior to the applicable time deadline, the nomination of the CTR Holder shall be set to zero.</p>	<p>Responsibility and conditions of allocated capacity usage is defined in two articles – Responsibility and Limitation of Liability, Relieve from Responsibility.</p> <p>Liability of auction winner in case when they don't use allocated capacity is defined by “acting legislation” and “respective agreement signed with the owner of a NTL, but not by this document. This is vague.</p> <p>In addition to annulling capacity right “if an Auction Winner refuses to sign the agreement on the capacity reservation with NTL owner, compensation shall be paid to the Dispatch Licensee, which is calculated through multiplying the dispatching tariff by the capacity allocated to the Auction Winner, calculated for one calendar month”. This statement differs from HIPPs position and from EU principles – Regulation No (EC) 714/2009, Annex I, paragraph 2.13</p> <p>TSO's liability is confined only by compensation of intentional direct losses. But not for compensation to bidder in case of curtailment of allocated capacity. In addition, Dispatch Licensee and NTL owner are released from all obligations undertaken under following circumstances: force-majeure, emergency situation and Reduction or suspension of export by receiving country.</p>
Chapter 9 - Settlement and Payment	

Draft Auction Rules proposed by HIPP	Draft Auction Rules proposed by GSE
<p>The TSO invoices CTR holders and collects all payments due resulting from the Auction of CTRs. CTR holders are responsible to pay within specified terms as follows:</p> <ul style="list-style-type: none"> a) capacity cost from annual auction; b) capacity cost from monthly auction; c) capacity cost from daily auction; <p>In addition the document thoroughly addresses the following necessary issues connected to settlement process:</p> <ul style="list-style-type: none"> • Invoice disputes; • Payment conditions; • Late payments; • Interest on arrears; <p>This chapter contains subhead Payment By the TSO to CTR Holders, that takes place if occurs: Annual, monthly, daily curtailment or in case of “use it or sell it” CTRs are resold on daily auctions.</p> <p>This document excludes any sett-offs between CTR holder and TSO and regulates conditions of following issues:</p> <ul style="list-style-type: none"> • Information and notices; • Limitation of liability; • Confidentiality; • Severability; • Disputes and applicable law • Force-majeure • Amendments • Acknowledgement of receipt 	<p>Settlement article of the respective document only states that “The winning participant will reimburse a NTL capacity reservation fee based on the final price”. GSE’s version of settlement article does not define any terms or conditions of settlement and payment inside the article, invoice disputes and so on. These issues are left under CRA with NTL, which is concluded between the auction winner and the NTL owner.</p> <p>No issues related to information and notices are regulated No force-majeure conditions are defined No approval or amendment procedures of Auction Rules are determined</p> <p>Confidentiality related issues are defined under separate article named: Confidentiality that is shortened version of HIPP’s proposal but rather bad wording.</p> <p>To cover disputes, the last article Transitional Provisions refers to existing Georgian legislation without specifying them or any procedures.</p> <p>Since secondary market and compensations due to curtailment are not allowed according to the GSE version, no payment by the TSO to auction winner is envisaged.</p>
Appendixes	
<ol style="list-style-type: none"> 1. Statement of Acceptance; 2. Bidder Contact Information; 	No appendixes

Differences in basic characteristics between the two drafts are shown in table 2, which demonstrate substantial gap between HIPP’s and GSE’s drafts of Auction Rules.

Table 2

Basic features of Auction Rules	HIPP version	GSE version
Explicit auction	Yes	Yes
Nomination of capacity usage (scheduling)	After auction	Before auction
Approval	GNERC	GSE ¹
Annual auction	Yes	Yes
Monthly auction	Yes	Yes
Daily auction	Yes	No ²
Unit of offered CTR	MW	MW ³
Penalty for not using allocated capacity (CTR)	No	Yes ⁴
Auction website	Yes	Yes
fallback procedures in case of IT disturbance	Yes	No
Liability of TSO for direct damages to bidder	Yes ⁵	Yes ⁶
Cascading allocation principle of CTRs	Yes	No
Interest of arrears	Yes	No
Notification liability to TSO of counterparties	Yes	No
Compensation for the load curtailment	Yes	No
Auction products:		
a) Base load	Yes	Yes
b) Blocks (hourly, monthly)	Yes	No
c) Peak load	Yes	No
d) Off-peak load	Yes	No
Secondary market	Yes	No ⁷
EU terminology	Yes	No
CTR Firmness	Yes	No
Full allocation or nothing	No	No
Pro-rata curtailment principle after allocated capacity limitation	Yes	No ⁸
Collateral requirement	Yes	No
Netting	Yes	No
Reporting liability to the Regulator	Yes	No
Adoption & amendment procedures	Yes	No

5.0 HIPP'S COMMENTS TO THE DRAFT CAPACITY AUCTIONING RULES

HIPP considers developing interconnection capacity Auction Rules to be fundamental in increasing investor's and trader's confidence in Cross-Border Energy Trade. In particular, below are HIPP's main comments formulated as recommendations on the 2nd draft Auction Rules prepared by the Cross Border working group at GSE:

- Auctioning procedures need to be more detailed. More description of application process, bid format, process for contesting result would be helpful;

¹GSE decided not to make this document a normative act, but an individual one. They don't mind GNERC to approve the rules and when market regulations will move to GNERC this rules also should move to them, but until then GSE will adopt them to save time.

²Daily auctions mentioned in Article 1 are "abandoned" in the rest of the document

³According to first version of GSE, offered product unit was MWh but, in the 2nd version MW as unit of offered product is mentioned twice and MWh once.

⁴There are two source of penalty, one not using allocated capacity and second if winner refuses to sign the agreement on the reservation of the NTL with NTL owner (see annex 2, article 12, paragraph 1, 2).

⁵Liable for damage if it is the result of intent or gross negligence or culpable dereliction of an essential duty

⁶Liable only for the direct loss inflicted intentionally

⁷GSE considers these rules to be interim rules. On later stage when cross-border trading will be more developed, secondary market could be introduced.

⁸In case when NTL capacity is limited and not enough for any priority group requirement, the capacities that have already been allocated to exporters will be annulled and a new auction will be announced for the capacity left.

- Market participants should be included in the discussions on auctioning rules and procedures;
- GNERC should be responsible for approving all market related rules including auctioning rules that should be established as market rules, not guidelines;
- HIPPP strongly encourages to use EU terminology in all market related rules and include them in auctioning rules as well (CBETA, ENTSO-E);
- Collateral requirements should be added for the auction participants. There must be a system to protect from defaults or from speculations;
- Eventually, secondary market for the capacity rights should be introduced, once the power market becomes robust; Participant, whom the capacity is allocated should be able to transfer this right entirely or partially to another participant;
- In document are missing:
 - a) How the notifications are organized;
 - b) Article describing procedure for amendments of the auctioning rules;
 - c) Settlement and payments – Auction Rules not described in details the responsibilities for payments in yearly, monthly and daily basis,
 - d) Gate opening and gate closure timing.
- Regarding the firmness of the transmission rights, CTR's should be "Use it or sell it" instead of "use it or lose it". According to ENTSOE rules and EU regulations capacity should be traded on secondary market. Conditions of firmness of allocated capacity should be set;
- Responsibility of the institution who organizes auction should be clearly defined. In the Auction Rules draft there is lack of well-defined responsibilities. The draft doesn't provide a clear and transparent description of auctioning process (e.g. it's unclear what kind of auctions are assumed – daily auctions mentioned in Article 1 are "abandoned" in the rest of the document);
- 'Force Majeure' and 'Emergency Situation' definitions vary substantially and auditability of reasons for its execution is very limited. Their definitions should comply with ENSTO-E standards.
- Transparency - All data regarding the auction procedures and results, as well as commercial and physical flows should be publicly available;
- There is not defined kind of bid: "full allocation or nothing" (in case when participant doesn't want to be partially allocated);
- For the period of limitation of export by Georgian Dispatch center, GSE should pay limitation fee under auction prices by which capacity was allocated;
- Financial settlements section is absolutely unclear;
- Priority levels – Renewable sources should get priority in the auction that is a provision of the IOA, which calls to give priority to renewable energy. It is hard to envision an emergency allocation of export capacity rights in annual or monthly auctions. It is comprehensive the priority given to new renewables based on Georgia's energy policy and to all renewables based on the CBETA. However, it is hard to believe that the other priorities are needed. It seems that these should all bid against each other for remaining capacity. Further, just two levels - new renewables and all other would be sufficient. Old renewables have a natural competitive advantage for exports due to their very low operating costs. As a result, old renewables do not need any additional priority recognition. Having two priority levels (new renewables and other) would create more robust auction process and likely higher auction revenue;

- Clarification should also be provided as to the definition of who can bid. For example, enterprises that aggregate production of several HPPs (consolidators) and any other enterprise (exporter) that contracts with a producer and a Turkish counterparty shall be permitted to bid;
- Cascading approach is the best way to handle unused capacity, not penalties. For example, if an annual CTR holder does not schedule energy for the next month, this unused capacity can be offered in monthly auctions. Similarly, if a monthly CTR holder does not schedule day-ahead energy, this can be offered in day-ahead auctions. Maybe this is implicit in the GSE's document but it would be clearer if it was stated in the document. It could be noted that one important factor that will reduce the risk of hoarding is that exporters must have a power sale agreement in place before obtaining CTRs. They cannot simply bid for opportunistic purposes;
- On another point related to bidding, simulation exercise would be better to organize with selected participants playing the role of various bidders. This would help to point out the complexities of participating in an auction and picking winners.

Additional attention should be given to daily auctions and incorporation of this process with DAP proposed by HIPP and agreed with ESCO at MO development working group. HIPP look at importance of daily auction particularly from the perspective of a run of river hydro plant. It will have some of its output subject to annual and/or monthly contracts.

However, there will be a significant portion of the output that cannot be committed to long term contracts due to uncertainties in rainfall. Run of river plants need to have an opportunity to sell this additional power in a day-ahead process. Additionally, CTR holders from annual and monthly auctions will not schedule 100% of this capacity each day. There will be unscheduled amounts that can be offered in daily auctions. This will serve to increase utilization of the interconnection and improve economic efficiency.

There does not seem to be a problem with bidders registering for each annual and monthly auction separately for each auction. However, daily transactions would require consideration of changes to GSE's contract registration and ESCO's registration of the exporter. Daily export volumes are not known until the day-ahead planning process. However, it could be noted that GSE would still be able to maintain system reliability through the calculation of ATC and limiting exports to that level.

6.0 CONCLUSION

The proposed draft Auction Rules by GSE, which was presented to the Cross Border working group has instances of vagueness, is incomplete, and is not corresponding to accepted EU principles and terminology. Also it doesn't provide a clear and transparent description of auctioning process and responsibilities. The draft has multiple references to lacking Appendixes. It is obvious that the document is under development and needs a lot of work to set a final version of Auction Rules that will be mostly compatible to EU approach and will satisfy requirements and expectations of investors and traders.

7.0 ANNEX A: DRAFT AUCTION RULES PROPOSED BY HIP

GEORGIA CAPACITY ALLOCATION AUCTION RULES AKHALTSIKHE-BORCHKA INTERCONNECTION BETWEEN GEORGIA AND TURKEY

1.0 Introduction

The following document (“Document”) is a draft of the “Georgia Capacity Allocation Auction Rules for the Akhaltsikhe-Borchka Interconnection between Georgia and Turkey”. The Document is referenced in the Cross Border Capacity chapter of the transmission grid code as the “Georgia Capacity Allocation Auction Rules”.

The Document is based in part on “Access Rules to Greece – Turkey Interconnection (Capacity Allocation Auction Rules) 2012”. This provided a good starting point since it was well written and involves Greece in the EU electricity market and Turkey which is the relevant neighboring country to Georgia. However, there are some differences due to the asynchronous nature of the Georgia-Turkey interconnection and due to the requirement to give priority to renewable resources in using the interconnection. These are described below.

1. The Greece-Turkey auctions are for both imports and exports during the relevant time period (month, day). In contrast, the Interconnection Operation Agreement between GSE and TEIAS refers to only exports from the exporting country in a month, based on an annual determination of which is the exporting country for that month. There seems to be reason to examine this restriction. In a month such as March, there could be a possibility that Georgia may want to import energy at times (such as cold days before the full spring hydro energy is available) while at the same time having export transactions to Turkey for other parts of the month. There may be value in reviewing the technical capabilities of the HVDC interconnection and to allow for both import and export schedules in a month. We also note that simultaneous imports and exports are possible. While physical flow is in one direction, contractual netting can take place to facilitate such transactions.
2. New renewable energy projects in Georgia have been granted long term interconnection capacity rights through Transmission and Dispatch Agreements. As a result, the amount of auctioned capacity will reflect ATC minus the capacity allocated to these renewable energy projects. There do not appear to be the same contractual allocations in the Greece-Turkey interconnection. Discussions will take place among the interested parties as to the means of allocating interconnection capacity to new renewable energy projects. For the purpose of this Document and for further discussion, we assume that each new renewable resource has been granted CTRs in an amount equal to the amount of capacity it sells under an export sales agreement for that year and/or month up to the capacity of the generating plant. The auctions would offer the remaining capacity to bidders. Again for discussion purposes, we further assume that there are three priority levels in the auctions. The first priority would be for new renewable energy projects; the second for older renewable energy projects; and the third for all other generation in Georgia. The auction process would invite all bidders to submit offers for the interconnection capacity that remains after a portion is allocated to new

renewable energy projects. New renewable energy projects would be awarded capacity in the auction first, with a non-zero clearing price for this group of bidders only if the amount of requested capacity exceeded the available amount. Older renewable energy projects would be awarded capacity next, with a non-zero clearing price for this group of bidders only if requested capacity exceeded the remaining available amount. Finally, the offers of other types of generation would be evaluated and cleared in the auction process if capacity still remained. We are not aware of this priority procedure being used elsewhere so there should be careful discussion among interested parties about the approach. It may be that the allocation of CTRs to new renewable resource projects is sufficient and that auctions should not offer additional priority to renewable energy projects. The argument for this is that renewable energy projects have lower variable costs than thermal sources and therefore already have a competitive advantage for exports without the need for further priority in the auctions.

3. This document includes the concept of CTRs that are not scheduled for energy transactions cascade into shorter term auctions. For example, unscheduled annual CTRs would be offered in monthly auctions and unscheduled monthly CTRs would be offered in daily auctions. For the purpose of this draft and for further discussion, we assume that CTR holders that received CTRs through auctions may receive auction revenue from subsequent auctions (i.e. CTR holder would receive the clearing price in a daily auction of unscheduled CTRs that were obtained in a monthly auction). However, projects that are allocated CTRs outside of the auction process would not have the right to receive any auction revenue for them. Such unused CTRs would be given to the TSO at no charge for use in subsequent auctions.
4. For the purpose of this draft and further discussion, we assume that CTR holders may not sell CTRs to other entities except through the cascading process described above.
5. This document does not address electricity transit from a neighboring country through Georgia to Turkey. It assumes that a capacity allocation for transit would be established through a contracting process rather than through auctions. Those contracts would include provisions related to the priority of internal Georgian use of the interconnection as compared to the transit transactions.

An important consideration was whether the Document was consistent with the ENTSO-E “Network Code on Capacity Allocation and Congestion Management 27 September 2012” (“ENTSO-E Document”). The following points can be made in that regard. It seems that any differences can be attributed to the lack of a day ahead or intraday market in Georgia and the fact that Georgia is not yet a member of ENTSO-E.

- The ENTSO-E Document refers only to day-ahead and intraday time periods. ENTSO-E has not yet published a longer term capacity allocation document.
- The ENTSO-E Document focuses largely on price coupling and implicit capacity allocation (where market prices reflect congestion) rather than explicit allocations by way of auctions. However, explicit allocation is permitted in the

ENTSO-E Document (and is the only viable alternative until an hourly market is in place in Georgia).

- The Net Transmission Capacity method for calculating capacity as contemplated is permitted.
- The Document incorporates the concept of Firm CTRs as required by the ENTSO-E Document. If the CTRs are reduced due to Force Majeure or system emergencies, the CTR holder is compensated based on the auction price in both documents.
- The Force Majeure language in the Document matches the ENTSO-E Document wording. One of the open questions seems to be how the firmness of CTRs is interpreted. In particular, is load curtailment to be employed prior to cutting CTRs? Politically, the answer is probably no but the Force Majeure language should be reviewed with this question in mind.
- The ENTSO-E Document calls for national regulatory authorities to approve the terms and conditions and procedures related to capacity allocation. The Document is consistent with that approach with GNERC having regulatory authority.
- The ENTSO-E Document has many provisions related to consistency among ENTSO-E members. These include development of a common grid model, coordinated capacity calculation, etc. The Document does not address these provisions. Presumably they can be addressed through future working documents as needed.
- The ENTSO-E Document has a number of TSO-TSO coordination provisions. These include a coordinated capacity calculation, cross zonal redispatching, remedial actions, etc. For example, what will TEIAS be required to do in terms of redispatching on its side of the interconnection to keep transactions flowing? This is probably not a matter for the Document to address, but it should be a point of negotiations between GSE and TEIAS.
- The ENTSO-E Document states that the cost of guaranteeing CTR firmness should be recovered through tariffs or other mechanisms. It seems that this should be a matter to be addressed in the tariff and GNERC approval process.
- The ENTSO-E Document states that congestion income should be used to facilitate the long term operation and development of the pan-European transmission network and efficient market. This matter is not addressed in the Document. It seems that the home for auction revenue should be addressed by GNERC. As a result of the ENTSO-E Document addressing only day-ahead and intraday capacity, the “ACER Framework Guidelines on Capacity Allocation and Congestion Management published on 29 July 2011” (“Acer Document”) was reviewed. The Acer Document was used as the basis for the ENTSO-E Document, so most provisions are very similar. In terms of long term capacity allocation, the following provision is of interest. In particular, does it require that all annual NTC be allocated in the Annual Auction, or is there any flexibility to allocate less than the full amount in the Annual Auction and correspondingly more in the Monthly Auctions? As currently drafted, the TSO, with GNERC approval, has the flexibility to allocate less than the full NTC in the Annual Auction.

“The CACM Network Code(s) shall require that TSOs determine the volume of long-term capacity rights in accordance with the technical capabilities of the network and for each long-term timeframe. The CACM Network Code(s) shall also ensure that the TSOs submit (at least indicative) levels of capacity available for the whole year

sufficiently in advance before the yearly allocation takes place. NRAs shall review and approve the volume of yearly capacity rights, as well as the principles for sharing capacity between the different time frames.”

The rules and procedures in this document (“Auction Rules”) set out the terms and conditions governing the allocation of available interconnection capacity at the Akhaltsikhe-Borchka interconnection between Georgia and Turkey (“Interconnection”). The Auction Rules are intended to provide a transparent market based method of congestion management.

These Auction Rules are established for the allocation of annual, monthly, and daily (day-ahead) interconnection capacity. The Available Transmission Capacity (“ATC”) at the Interconnection is made available to qualified auction participants (“Bidders”) in Georgia to in the form of Commercial Transmission Rights (“CTRs”) where 1 CTR equals the allocation of 1 MW per hour of transmission capacity at the Interconnection for the relevant time period. CTRs are required to export electricity across the Interconnection, but CTRs do not involve any rights, liabilities or financial aspects of the actual transport of electricity. Such rights, liabilities, and financial aspects of electricity transport are governed by transmission tariffs and the transaction nomination and fulfillment provisions of the market rules. These Auction Rules describe an explicit auction process which may, in the future, transition to an implicit auction process as the electricity market in Georgia evolves to make such a process feasible.

These Auction Rules include both the operational rules and procedures required for acquiring and using CTRs as well as the commercial terms and conditions for participation in auctions, including among other items, collateral requirements, payment collection, and default provisions.

2.0 DEFINITIONS

“Allocated CTRs” are those interconnection capacity rights the successful Bidder obtains upon publication of the Auction Results in form of Commercial Transmission Rights and for such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity.

“Annual Auction” is the auction covering a Period from the first Day to the last Day of a calendar year.

“Annual ATC” is that part of ATC to be allocated in the Annual Auction.

“Auction” is the mechanism used to Allocate CTRs via explicit Annual, Monthly and/or Daily Auctions.

“Auction Day(s)” are such days on which Auctions take place. Bids can be submitted until the deadline specified in the Auction Specifications.

“Auction Specifications” is the information regarding a specific Auction provided on the Auction Website.

“Auction Tool” is the IT system used by the TSO to receive and process Bids from Bidders, and publish the Results of the Auction.

“Auction Website” is the website developed and operated by the TSO with the content as described in these Auction Rules.

“Available Transmission Capacity” (“ATC”) is that portion of Net Transmission Capacity available for each phase of the allocation procedure and which shall be used for determining the volumes available in the Annual, Monthly and Daily Auctions after

accounting for such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity.

“Bank Guarantee” is an irrevocable and enforceable bank guarantee valid for a specified period of time, waiving any exceptions or set-offs, issued at the request of the Bidder in order to perform its obligations arising under these Auction Rules. Bank Guarantee shall also include any amendment of the initial Bank Guarantee, duly signed, and approved by the TSO.

“Bid” is an offer submitted by a Bidder to purchase CTRs pursuant to and in compliance with these Auction Rules. A Bid consists of a Capacity in MW and a price in Lari [Euro?] per MWh.

“Bid File” is a set of Bids submitted to the TSO by a Bidder for a given Auction in electronic form.

“Bidder” is an enterprise that meets the eligibility requirements described in this document and participates in, intends to participate in, or has participated in an auction and/or Secondary CTR Market.

“Block” is a quantity of MW made available at a Daily Auction over one hour.

HYDROPOWER INVESTMENT PROMOTION PROJECT (HIPP) Appendix

“Business Day” is every day except for Saturdays, Sundays and any public Georgian public holidays, as listed in Appendix 3.

“Business Hours” is every hour on a Working Day from [XX:00 to YY:00] Georgia Time Zone.

“Capacity Cost” is the cost, expressed in Lari [or Euro?], payable by a CTR Holder as a result of the CTRs awarded in an Auction, equal to the Clearing Price times Allocated CTRs times number of hours in the relevant time period in the Auction Specifications.

“Clearing Price” is lowest Bid Price selected for award of CTRs at an Auction expressed in Lari [or Euro?] per MW per hour.

“Commercial Transmission Right (“CTR”)” is the instrument that provides successful Bidders and such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity the right to use Interconnection Capacity for electricity transport expressed in MW for a specified period of time in the direction from Georgia to Turkey.

“Counterparty” is the qualified legal entity in Turkey, which has been designated by the CTR Holder as its Counterparty regarding Nomination of Schedules according to the Auction Rules.

“CTR Holder” is an entity that has obtained CTR(s).

“CTR Resale” is the mechanism by which a CTR Holder may resell CTR(s) back to the TSO.

“CTR Transfer” is the process by which a CTR Holder may transfer a CTR to a Beneficiary.

“Daily ATC” is that part of ATC to be allocated in the Daily Auction.

“Daily Auction” is the day-ahead auction covering a daily 24 hour period beginning at the start of the following day.

“Entitlement” is the right of a Bidder to participate in an Auction.

“Export Schedule” is a schedule established by a CTR Holder in accordance with its CTR rights and that specifies the power, expressed in MW per hour, to be exported over the Interconnection to a Counterparty.

“GNERC” is the Georgian National Energy and Water Supply Commission, with regulatory jurisdiction over the Capacity Allocation Auction Rules and their implementation.

“Maintenance Period” is the period of time during which a Product has to be adjusted due to planned maintenance.

“Market Clearing House” is an agency or separate corporation of a electricity market power exchange responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery and reporting trading data.

“Monthly ATC” is that part of ATC to be allocated in the Monthly Auctions.

“Monthly Auction” is the auction covering a Period from the first Day to the last Day of a calendar month.

“Net Transfer Capacity (“NTC”)” is the maximum interconnection capacity, expressed in MW that can be transmitted from Georgia to Turkey compatible with security standards applicable in both Georgia and Turkey.

“Nomination” is a notification to the TSO and TEIAS by a CTR Holder and its Counterparty of the Schedules relating to the power expressed in integer value of MW which they want to use within the limits of the Capacity of the CTRs awarded to the CTR Holder.

“Party” is the TSO or a Bidder.

“Product” is the whole or part of the Annual, Monthly or Daily ATCs offered in an Auction with reference to a specific period of time.

“Secondary CTR Market” is the mechanism that permits the transfer of CTR(s) acquired at Annual or Monthly Auctions by a CTR Holder and automatic resale to Daily Auctions of the CTR(s) that have not been nominated for electricity schedules.

“Statement of Acceptance” is a declaration by the Bidder to comply with all the provisions contained in these Auction Rules, as shown in Appendix 1.

“TEIAS” is the Turkish Electricity Transmission Company, which is the transmission system operator in Turkey.

“Transfer Notification” is information about a CTR Transfer submitted to the TSO by a Transferor in electronic form.

“TSO” is the Georgian Transmission System Operator.

3.0 AUCTION RULES

3.1 GENERAL RULES

These Auction Rules describe the requirements that Bidders must fulfill to participate in the Annual, Monthly and Daily Auctions, the Auction procedures, the awarding of CTRs, the conditions to access Secondary CTR Market, and the utilization of Allocated CTRs.

The Auctions and the Secondary CTR market are applicable for Interconnection Capacity only. The Secondary CTR market and awarding of CTRs and the financial

settlement of the Auction Results do not involve electricity transport or any rights, liabilities or financial aspects pertaining to electricity transport.

A successful Bid for Interconnection Capacity binds the TSO and the Bidder to fulfill their respective duties. The TSO is obliged to make CTRs available to the CTR Holder, while the CTR Holder is under the obligation to conform to Auction Rules, pay the Capacity Cost to the TSO, and submit all required financial guarantees.

3.2 FIRMESS OF CTRS

Annual and Monthly CTRs are offered on a firm basis except for cases where curtailments are necessary due to circumstances that constitute Force Majeure or for reasons linked to the safety of the transmission system and after all other reasonably possible measures have been taken.

Daily CTRs are offered on a firm basis following a firmness deadline of 30 minutes before the close of bidding for Daily CTRs.

When curtailments are necessary due to circumstances that constitute Force Majeure, or for reasons linked to the safety of the transmission system, the TSO shall only be obliged to compensate the Annual and/or Monthly CTR Holder of CTRs obtained only through auctions, at 100% of the Clearing Price paid corresponding to the hours of curtailed CTRs without liability for any incidental, indirect or consequential damages caused.

The TSO shall submit a quarterly report to GNERC summarizing the duration and cause of any curtailments due to the safety of the transmission system and Force Majeure. GNERC may, at its option, open a proceeding to investigate the causes for such curtailments.

4.0. AUCTIONS

The auctions described in this document shall take place for the allocation of available interconnection capacity at the Akhaltsikhe-Borchka interconnection between Georgia and Turkey in the direction of Georgia to Turkey.

CTRs are offered in units of 1 MW, and provide the CTR Holder with the right to use Interconnection Capacity for electricity transport for a specified period of time defined by the Auction Specification.

[In order to provide a higher level of priority to renewable energy projects as directed by Government of Georgia policy, all auctions shall have three priority levels. New renewable energy projects shall be considered first as a group, then older renewable energy projects if there is remaining capacity for the auction, and finally all other Georgian generators if there is remaining capacity. GSE shall propose for GNERC review and approval the procedures for a three part auction process as part of the Auction Specifications.]

4.1 ANNUAL

Auctions [Consider whether these should be 9-month auctions due to restricted winter exports]

Annual Auctions for CTRs for Annual ATC apply from the first day through the last day of the calendar year. The Annual Auctions shall take place no later than [insert date] of the preceding calendar year.

The NTC forms the basis for the Annual Auction. The TSO and TEIAS shall agree to NTC values, which may be stated in an annual or seasonal form. The TSO shall then

determine the maximum ATC for the Annual Auction after subtracting the capacity associated with such renewable energy projects that have been granted long term access to interconnection capacity. The TSO may, at its option and with the approval of GNERC, offer less Capacity in the Annual Auction than the maximum ATC in a calendar year if, in its determination, such reduced Annual allocation and resulting increased Monthly Allocation will improve utilization of the Interconnection, particularly in regard to exports of electricity generated by hydroelectric plants. The TSO shall publish the NTC, ATC, and the amount of Capacity to be offered in the Annual Auction on its Auction Website.

For Annual Auctions, CTRs are offered as products defined by the TSO. The Product shall be an Annual Base with a definition of 00:00 from the first day of the calendar year to the last day of the calendar year. The TSO may at its option and

with the approval of GNERC, designate monthly blocks, Annual Base, Annual Peak, and Annual Off-Peak time periods for the Annual Auction.

The TSO may, at its option, designate maintenance periods when the Interconnection is not expected to be available in the Annual Auction Specification.

4.2 MONTHLY AUCTIONS

Monthly Auctions for CTRs for Monthly ATC apply from the first day through the last day of the applicable calendar month. The Monthly Auctions shall take place no later than [insert date] of the preceding month.

The NTC, minus any CTRs awarded in the Annual Auction and CTRs associated with renewable energy projects that have been granted long term access to interconnection capacity, forms the basis for the Monthly Auctions. The TSO shall offer this full amount in the Monthly Auctions. The TSO shall publish the Monthly ATC and the amount of Capacity to be offered in the Monthly Auction on its Auction Website.

For Monthly Auctions, CTRs are offered as Products defined by TSO. The Products can be offered according to the following definitions: [Note that the hours below are in the Turkey-Greece specifications and may need to be modified for Georgia. It may be preferable to simply offer monthly base capacity and monitor results to determine if additional time periods would add value to the process.]

- (a) Monthly Base: 00:00-24:00 from the first day of the month to the last day of the month;
- (b) Monthly Peak: [06:00-22:00?] from Monday through [Saturday?] from the first day of the month to the last day of the month;
- (c) Monthly Off-Peak: [00:00-06:00?] and [22:00-24:00?] from Monday to Saturday and 00:00-24:00 of Sunday, from the first day of the month to the last day of the month;
- (d) Such other hours as the TSO may designate in the Auction Specifications.

The TSO may, at its option, designate maintenance periods when the Interconnection is not expected to be available in the Monthly Auction Specification.

4.3 DAILY AUCTIONS

Daily Auctions for CTRs for Daily ATC apply from the first through the last hour of the following day.

The amount of Capacity to be offered in the Daily Auction shall equal the Daily ATC minus any Annual and Monthly CTRs for which energy transactions which have been scheduled into or from Turkey.

The Product offered in the Daily Auctions shall be hourly Blocks.

4.4 FALLBACK PROCEDURE IN EVENT OF IT SYSTEM DISTURBANCE

The TSO may change, cancel, or suspend any procedures in these Auction Rules in the event of serious disturbance to the IT System or devices used by the TSO. The TSO shall publish information on its Auction Website about the implementation of downgraded mode, interruption etc., if available.

In the event of an IT system disturbance that affects the Daily Auction, the TSO shall perform the following fallback procedures and actions:

- (a) If the electronic mail server of the TSO is in operation, then the TSO shall inform the Bidders (via e-mail) that the Auction shall be performed via e-mail (the Bid Files shall be send via e-mail by the Bidders);
- (b) If the electronic mail server of the TSO is completely or partially out of operation, then the TSO shall inform the Bidders (via phone or fax) that the Auction is cancelled;
- (c) The TSO shall inform the Bidders if any other measures have to be taken;
- (d) The TSO shall publish information on its Auction Website about the postponement, switch to downgraded mode, cancellation etc., if available.

In the event of an IT system disturbance that affects the Annual or Monthly Auctions, the TSO may, at its option, take the actions as described for Daily Auctions or postpone the Annual or Monthly Auction for a period not to exceed [5] days.

4.5 AUCTION WEBSITE

The TSO shall operate and maintain an Auction Website. The following publications shall be provided on the Auction Website:

- a) Auction Rules, including any modifications;
- b) Auction Announcements;
- c) Auction Specifications;
- d) Names, fax and telephone number(s), e-mail addresses of TSO contact persons;
- (e) Formats of documents related to the Auction to be downloaded and used by Bidders;
- (f) NTC and ATC;
- (g) Allocations to such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity;
- (h) Auction Results (Clearing Price, allocated quantity for all Products);
- (i) Names of successful Bidders and Allocated Capacity;
- (j) Planned Curtailments;
- (k) Maintenance Periods;
- (l) Indicative calendars for Monthly Auctions;
- (m) Other relevant information as determined by the TSO.

The TSO shall not publish commercially sensitive information with respect to any individual Bidder.

4.6 CONDUCT OF BIDDERS

Prior to, during and after an Auction, Bidders shall refrain from any action or behavior which adversely affects or threatens to adversely affect competition in the bidding proceedings, or which aims at gaming, or which in any other way disrupts or threatens to disrupt the Auction proceedings, or the transparency, cost-effectiveness or fairness thereof.

The TSO may report data to the GNERC so they can take appropriate measures against those who act, or behave, or have acted, or behaved in violation of the first paragraph, who misuse any right or position obtained pursuant to an Auction, or who do not comply with any other provision of these Auction Rules.

[Should the TSO have the right to disqualify bidders subject to appeal at GNERC, or should the TSO submit a request to disqualify a bidder to GNERC?]

5.0. PARTICIPATION REQUIREMENTS

5.1 REGISTRATION REQUIREMENTS

In order to participate in the Auctions performed by TSO under these Auction Rules the Bidder must:

- (a) Have executed all relevant contracts with the TSO, including contracts for access to the transmission system and for transmission;
- (b) Have effected and submitted the required guarantees under all relevant contracts with the TSO;
- (c) Not be in default nor have outstanding debts to the TSO beyond required payment dates regarding invoices arising from previous Auctions, for access to the transmission system, and for transmission or other activities, and shall not have been precluded from participating in Auctions due to deregistration, suspension, or exclusion;
- (d) Have an executed agreement with a valid Counterparty in Turkey regarding Nomination of Schedules according to the Auction Rules;
- (e) Not be under bankruptcy or liquidation proceedings.

5.2 APPLICATION PROCEDURES

In order to apply for participation in Auctions, the Bidder shall submit a Statement of Acceptance as shown in Appendix 1 and Bidder Contact Information as shown in Appendix 2. By signing the Statement of Acceptance, the Bidder undertakes to comply with all the provisions contained in these Auction Rules as well as in the Auction Specifications.

Bidder shall submit such supporting documentation as may be required to demonstrate its qualifications. The TSO shall review the Statement of Acceptance and supporting documentation within seven (7) Working Days from its receipt. In the event the TSO denies a registration application, the TSO shall inform the applicant of the reasons for the rejection by electronic mail or fax. The Bidder may reapply with the required application modifications. The Bidder may, at its option, request that GNERC review and make a determination on the registration application denial.

The Bidder shall inform the TSO promptly if any of the information in the registration application changes and shall submit such modifications to the TSO. The TSO may inform the Bidder that it is reconsidering Bidder's qualifications to participate in Auction if in the opinion of the TSO such changes merit reconsideration of its approval. In the event the TSO denies the modified registration application, the Bidder may, at its option, request that GNERC review and make a determination on the registration denial.

Within fourteen (14) days of the TSO's approval of the Bidder's application, Bidder shall submit to the TSO a Bank Guarantee in the form shown in Appendix 4 and in the amount required in this document. The Bidder shall update the Bank Guarantee to such levels as required to participate in any Auction in which it desires to bid. The TSO shall inform the Bidder that it is eligible to participate in Auctions, subject to the Bidder maintaining a sufficient Bank Guarantee. In the event the Bidder does not submit the Bank Guarantee within thirty (30) days, the Bidder's application shall be void. The Bidder may reapply at its option. At such time as a Market Clearing House is established for the electricity market in Georgia, such Market Clearing House shall implement rules and procedures for the collateral requirements, settlement, and payment for CTRs. Such rules and procedures shall be adopted for these Auction Rules and shall supersede the Bank Guarantee, payment, and settlement requirements specified in this document.

The TSO shall publish on its website the list of Bidders that are eligible to participate in Auctions. Bidders may object to the list within the deadlines specified in the Auction Specifications. The TSO shall review any objections filed by Bidders and inform the objecting Bidder of its determination. The Bidder may, at its option, request a review and determination of any denials by GNERC. In order to facilitate transfers in the Secondary CTR Market, the Bidder agrees that its name shall be included in the list of possible Beneficiaries accessible only to CTR Holders.

5.3 BANK GUARANTEES

The TSO, in consultation with GNERC and subject to GNERC's approval, may request Bank Guarantees for Auctions and determine the required amount. In the event Bank Guarantees are required, each Bank Guarantee submitted to TSO is subject to Georgian law and it should be issued by a solvent Bank, legally operating in Georgia and having its corporate office or a duly established subsidiary established in Georgia. This credit institution shall not be the Bidder itself nor shall it control the Bidder or be controlled by the Bidder under the meaning of corporate law. The wording of the Bank Guarantee shall be in a form as shown in Appendix 4 or such other format as may be acceptable to the ISO. Each Bank Guarantee shall be submitted in sealed envelope which shall clearly bear the identification details of the Bidder.

Once submitted, the Bank Guarantee covers the participation of the Bidder in all forthcoming Auctions. The Bidder is not required to submit additional Bank Guarantees except if there is a demand for payment being made under the Bank Guarantee. In such a case the Bidder shall provide the TSO with the respective Bank Guarantee, according to the terms described herein, otherwise the Bidder is temporarily suspended at the Interconnection and the provisions of these Auction Rules concerning temporary suspension apply.

In the event payments for CTRs are not made in accordance with the terms specified in this document, the Bidder shall be temporarily suspended and the provisions of these Auction Rules concerning temporary suspension apply, including a demand for payment under the Bank Guarantee.

5.4 DEREGISTRATION, TEMPORARY SUSPENSION AND EXCLUSION

5.4.1 Deregistration

A Bidder may request the withdrawal of Entitlement in the form of deregistration at any time, in order to terminate its participation in Auctions and the Auction Rules. Any such request must be made by registered mail to the TSO with acknowledgement of receipt.

The withdrawal of the Entitlement takes effect 10 Working Days after the TSO receives the request for withdrawal. The request shall be granted on condition that:

- (a) The Bidder affirms that it shall no longer possess rights to use any Allocated CTRs;
- (b) The Bidder has fulfilled all its obligations towards the TSO.

If the Entitlement is withdrawn at the request of the Bidder, it may no longer take part in Auctions or in the Secondary Market. No export transactions may be nominated or Transferred or Resold and shall not be taken into account for the "Use it or sell it" valuation. The TSO shall transfer any unused Annual CTR Allocation to be offered by the TSO in the Monthly Auctions.

Any Withdrawal of Entitlement does not relieve the Bidder from its payment obligations in accordance with the provisions of these Auction Rules, including Allocated CTRs that have not previously been transferred to another Bidder.

In the event that Entitlement is withdrawn at the Bidder's initiative, the Statement of Acceptance is automatically terminated. Any Bidder whose Entitlement has been withdrawn at its own initiative and under the terms of the Auction Rules may request Bidder status at any later date by following the Auction Rules procedure.

5.4.2 Temporary Suspension

A Bidder shall be temporarily suspended from further Auctions and Secondary CTR Market in the event the Bidder:

- (a) Is in default of its financial obligations to the TSO, and/or;
- (b) Institutes or has been instituted against the Bidder a proceeding seeking a judgment of insolvency or any other relief under insolvency law and/or;
- (c) Does not fulfill the requirements in respect of grid access and transmission.

The TSO shall promptly notify the Bidder of temporary suspension by both facsimile transmission and registered mail (with acknowledgment of receipt) and shall be in effect on the date specified in the Notification. The temporary suspension notice shall contain the reason for suspension, suspension date, and time period within which the Bidder must fulfill the outstanding obligations ("Cure Period"). The Cure Period shall be [30?] days unless modified by the TSO subject to GNERC approval.

In case of temporary suspension:

- (a) The Bidder is not relieved from its financial obligations for its Allocated CTRs;
- (b) The Bidder shall not be entitled to participate in further Auctions and Secondary Market during the temporary suspension;
- (c) The Bidder is not entitled to use any Allocated CTRs previously acquired during the temporary suspension;
- (d) If payments of any outstanding payment obligations are not made by the end of the Cure Period, the TSO shall make a demand for payment made under the Bank Guarantee. The CTR Holder shall be charged with any additional costs and expenses arising out of the demand for payment;
- (e) The TSO shall allocate any Annual CTRs and Monthly CTRs to the Daily Auctions during the Cure Period during the temporary suspension until the earlier of the date that the Bidder fulfills all the outstanding obligations to be reinstated or the end of the Cure Period;
- (f) If the Bidder does not fulfill all outstanding obligations to be reinstated by the end of the Cure Period, the TSO shall allocate any Annual CTRs to applicable

Monthly Auctions and any Monthly CTRs to Daily Auctions and the Bidder shall lose all rights to those CTRs.;

If the Bidder does not fulfill all outstanding obligations to be reinstated within the Cure Period, the Exclusion provisions shall apply. If the Bidder has fulfilled all outstanding obligations, it shall inform the TSO and the TSO shall review the matter and inform the Bidder of its determination within 14 days. The Bidder may participate in Auctions and the Secondary Market upon receipt of the TSO notification that the Bidder has been reinstated. The Bidder shall regain rights to any Allocated CTRs that have not been transferred by the TSO to the Daily Auctions during the temporary suspension.

If a demand for payment has been made by the TSO under the Bank Guarantee, the Bidder shall provide the TSO with a Bank Guarantee in an amount as required in these Auction Rules in order to be reinstated.

If the TSO determines that the Bidder should not be reinstated, the Bidder may, at its option, submit the matter to GNERC for its review and determination.

5.4.3 Exclusion

A Bidder shall be excluded from participating in future Auctions and the Secondary Market and from using any Allocated CTRs for nomination in the event that:

- (a) The Bidder breaches the Auction Rules despite the prior notification of the breach sent to the Bidder by TSO, or;
- (b) The Bidder declares itself dissolved or wound up, or;
- (c) The Bidder is declared in bankruptcy, or is dissolved or wound up by a court ruling.

The TSO shall promptly notify the Bidder of its exclusion by both facsimile transmission and registered mail (with acknowledgment of receipt) and shall be in effect on the date specified in the Notification.

The Bidder may, at its option, appeal such determination by the TSO to GNERC. This provision shall apply unless and until a decision is issued by GNERC and served by the Bidder to TSO stating that the Bidder has not been excluded from participating in future Auctions and the Secondary Market and from using any Allocated CTRs for nomination.

In case of exclusion:

- (a) The Bidder shall be obliged to pay the Capacity Price for all Allocated CTRs;
- (b) The TSO shall make a payment claim under all the Bank Guarantee(s) given by the Bidder for its Auction participation;
- (c) The Bidder shall not be entitled to participate in further Auctions and Secondary Market
- (d) The Bidder shall lose any Allocated CTRs;
- (e) The TSO shall reallocate all the Allocated Annual CTRs to Monthly Auctions and all Allocated Monthly CTRs to Daily Auctions.

6.0 AUCTION PROCEEDINGS

6.1 AUCTION SPECIFICATIONS

The Auction Specifications consist of information regarding:

- (a) Products made available for Auctions:
 - i. Annual Product: Based load and/or peak-load and/or off-peak load;
 - ii. Monthly Product: Base load and/or peak-load and/or off-peak load;

- iii. Daily Product: Hourly blocks;

HYDROPOWER INVESTMENT PROMOTION PROJECT (HIPP) Appendix

- iv. Such other relevant time product time periods as the TSO may offer in the Auction;

- (b) ATC available for bid after allocations to such renewable energy projects that have been granted contractual rights for interconnection capacity;
- (c) Time periods when bids may be submitted;
- (d) Timeframe for the publication of Auction Results;
- (e) Deadline to contest Auction Results;
- (f) Bid forms for the Auction;
- (g) Such additional information as the TSO may include.

Bids shall be in the format of Lari [Euro?] per 1 MW of Capacity. The Capacity Cost shall equal the MW allocated to the Bidder multiplied by the Clearing Price multiplied by the number of hours in the relevant period.

Only those Bids submitted by Bidders, which meet the requirements of the Auction Specifications and Auction Rules shall be considered in the Auction.

6.2 ANNUAL AUCTION

Annual Auction Specifications shall be published by TSO on the Auction Website no less than thirty (30) days before the Auctioning Day of the Annual Auction.

The TSO shall inform each Bidder of the outcome of its Bid(s) no later than two (2) hours after the close of the bidding period. The TSO shall publish results of the Auction on the Auction Website within four (4) hours after the close of the bidding period. In the event the TSO requires additional time to evaluate Bids and determine Auction results, it shall publish an informational notice on the Auction Website that shall state the reason for the additional time and an estimated time of publishing the Auction results.

6.3 MONTHLY AUCTIONS

Monthly Auction Specifications shall be published by TSO on the Auction Website no less than seven (7) days before the Auctioning Day of the Monthly Auction.

The TSO shall inform each Bidder of the outcome of its Bid(s) no later than two (2) hours after the close of the bidding period. The TSO shall publish results of the Auctions on the Auction Website within four (4) hours after the close of the bidding period. In the event the TSO requires additional time to evaluate Bids and determine Auction results, it shall publish an informational notice on the Auction Website that shall state the reason for the additional time and an estimated time of publishing the Auction results.

6.4 DAILY AUCTIONS

The TSO shall allocate the entire of the Daily ATC seven (7) days per week on a day-ahead basis (Auctioning Day). The following steps are performed for the Daily Auction:

- (a) The Daily ATC is published on the Auction Website at or before [07:45] Georgian Time of the Auctioning Day.
- (b) Bid Submissions Daily Auctions are held between [07:45 and 08:15] Georgian Time of the Auctioning Day. The process for the submission of Bids for the Daily Auctions is described in the Daily Auction section of the Auction Website.

- (c) Each Bidder shall be informed of the outcome of its Bid(s) by 09:00 of the Auctioning Day. The Results of the Auctions are announced on the Auction Website;
- (d) The above times may be modified by the Auctions Operator in the Auctions Specifications.

The CTRs allocated by the TSO in the Daily Auctions shall be subject to the “Use It or Lose-It” principle.

6.5 BID FORMAT AND BID LIMITATIONS

Bids are submitted by the Bidder using a Bid File for each Auction. Bid requirements are as follows:

- (a) Each Bidder may submit a Bid File with a maximum of ten (10) Bids for each Product. Such bids submitted are independent of each other;
- (b) The sum of requested capacities of the Bids for the relevant Product shall be less than or equal to the ATC of the Product and maximum CTR limitations per bidder, if any;
- (c) Each Bid reflects Capacity in units of one (1) MW with a minimum of one (1) unit and increments of one (1) unit.

Each Bid must contain the following:

- (a) The name of the bidding company (Bidder);
- (b) Company identification code;
- (c) Generator source, including characterization of new renewable resource, older renewable resource, or other generating source;
- (d) The code number of the relevant Auction;
- (e) Day/period of execution;
- (f) The value of the Bid in Lari/MW (maximum two (2) decimals);
- (g) The amount, in Blocks of integer quantity (MW) minimum one (1) MW, of the required Interconnection Capacity;
- (h) Such other information as the TSO may require in the bid form.

Bids are unconditional and irrevocable.

Bids shall be submitted using the appropriate forms, which can be downloaded from the Auction Website. In the event the Bid does not fully comply with the requirements specified in the Auction Specification and Bid Form, the Bid File is considered unacceptable and it is ignored during the Auction clearing process.

Bidders may resubmit a Bid File before the corresponding deadline of the Auction. The most recent Bid File with respect to the corresponding deadline is considered in the Auction evaluation.

6.6 DETERMINATION OF AUCTION RESULTS

6.6.1 Awarding CTRs

The ATC is auctioned by TSO result in one Clearing Price for each Product in form of CTRs for each priority group of generators. The Results of each Auction are determined as follows:

- (a) If the sum of all Bids submitted for a given Auction is equal to or less than the ATC, no Clearing Price is charged to the CTR Holder;
- (b) If the sum of all Bids submitted for a given Auction exceeds the ATC, a Clearing Price is charged to the CTR Holder for each Allocated CTR. For this purpose, the

Bids are sorted out by the price offered, starting with the highest price and ending with the lowest one;

- (c) The requested capacities of the Bids are added up to the Bid, which represents the level above which the sum of the Interconnection Capacity requested by the Bidders exceeds the ATC (marginal Bid);

The price of the marginal Bid is the Clearing Price. Each Bidder who bid more than the Clearing Price receives the Interconnection Capacity requested at the Clearing Price in form of a CTR. The remaining Interconnection Capacity is allocated to the Bidder of the marginal Bid. If the ATC is reached with several Bids of the same price, the remaining Interconnection Capacity is distributed “pro-rata” in proportion to the requested Interconnection Capacity of the Bids.

CTR Holders are not obliged to use the CTR purchased in the Auctions conducted by TSO. They must, however, pay the Capacity Cost once CTRs have been allocated to them.

6.6.2 Deadline for Contesting Results

The Auction Results published by TSO are final at the end of the time given for their Contestation and provided that the TSO rejects any objection by Bidders. Bidders may contest the Auction proceedings and/or the Auction Results within the deadlines as follows:

- (a) For Annual and Monthly Auctions: no later than one working day (1) after the publication of Auction Results;
- (b) For Daily Auctions: no later than one (1) hour after the publication of the Auction Results in the Auction website.
- (c) Any Bidder that contests the proceedings or the Auction Results shall send its objection to the TSO at the fax number shown in Appendix 5.
- (d) If the Bidder does not contest the Auction result within the deadline, the Bidder loses the right to contest and the Auction Results are final and binding.

The TSO shall reply to the Bidder no later than:

- (a) One (1) working day after the reception of the objection for Annual and Monthly Auctions;
- (b) One (1) hour after the receipt of the objection for Daily Auctions.

In the event that the objection of the Auction is considered as valid, TSO shall:

- (a) Either change the Auction Results accordingly, or;
- (b) Cancel the Auction and establish a new Auction for the allocation of the CTRs;
- (c) Publish the objection, the TSO’s decision, and the actions taken by TSO.

7.0 SECONDARY CTR MARKET

7.1 RESALE OF CTRS IN DAILY AUCTIONS

All non-nominated Annual and Monthly CTRs shall automatically be included by the TSO for resale in the Monthly and Daily Auctions respectively. For those CTRs that are resold that were initially obtained through the auction process at a non-zero price, the CTR Holder, as Reseller, shall be compensated with the relevant Clearing Price for its resold CTRs.

In the event that system conditions result in the Daily ATC being less than the non-nominated Annual and Monthly CTRs, the non-nominated CTRs shall be curtailed on a pro-rata basis.

The CTR Holder shall remain responsible for the payment of the Capacity Price for the resold CTRs.

8.0 CAPACITY USAGE RULES

8.1 NOTIFICATION TO TSO OF COUNTERPARTY (IES)

Notification of the CTR Holders' Counterparty (ies) to the TSO is required for the Nomination consistency check. The CTR Holder shall designate its Counterparty (ies) as follows:

- (a) If the CTR Holder is a registered market participant in the Turkish power market, then the CTR Holder can designate itself as the Counterparty;
- (b) For Annual and Monthly CTRs Nominations, if the CTR Holder is not a registered market participant in the Turkish power market, then the CTR Holder must designate one or more Counterparty(ies) on the Turkish side of the Interconnection who is/are registered market participant in the Turkish power market;
- (c) For Daily CTR Nominations the CTR Holder must designate one Counterparty on the Turkish side of the Interconnection who is registered as a market participant in the Turkish power market.

The CTR Holder shall communicate its Counterparty(ies) for Nominations of Annual and Monthly CTRs to TSO by using a form (downloadable from TSO Auction Website) no later than 12:00 three (3) Working Days before the relevant Auction Day.

The CTR Holder shall communicate its Counterparty for the Nomination of Daily CTRs to TSO by indicating its Counterparty in the corresponding Daily Auction Bid Form. TSO shall not be held liable to a Bidder in case that the indicated Counterparty for the Nomination of Daily CTRs is not entitled to perform nominations in Turkey.

If the CTR Holder does not communicate its Counterparty (ies) to the TSO in accordance with these provisions, the CTR Holder shall not be permitted to use the applicable Allocated CTRs.

8.2 CTR USAGE

Allocated Capacity from Auctions and allocations to such renewable energy projects that have been granted contractual rights for long term access to interconnection capacity operates by way of the delivery of fixed schedules nominations to the TSO and TEIAS for the following day in compliance with the market operations and transmission rules and procedures in Georgia and Turkey. Each CTR Holder wishing to export electricity over the Interconnection is responsible for submitting to schedule nominations in accordance with the applicable rules and procedures. The schedule nomination to the TSO is binding for the CTRs Bidder and its Counterparty. The TSO is not responsible for a schedule, which is not confirmed between the CTR Bidder and its Counterparty. The CTR Holder is responsible for ensuring the nomination does not exceed the maximum amount of CTRs it holds. The TSO may, at its option, request the CTR Holder revise its nomination or may reject the nomination depending on system operation and time constraints. If no revised and valid nomination is submitted prior to the applicable time deadline, the nomination of the CTR Holder shall be set to zero. If the schedule nominations of the CTR Holder and its Counterparty do not match, the TSO shall reduce the nominated schedules to the minimum value of the Nomination submitted to TSO by the CTR Holder and the nomination submitted to TEIAS by its counterparty. The agreed nominations shall be considered final and binding for TSO

and the CTR Holder. [Would it be more appropriate to cancel the transaction if the Counterparty doesn't confirm the volume?]

9.0 SETTLEMENT AND PAYMENT

9.1 SETTLEMENT OF CTRS

The TSO collects all payments due resulting from the Auction of CTRs, performed by the TSO as described in these Auction Rules. The TSO pays CTR Holders in accordance with these Auction Rules as described herein.

9.1.1 Invoices and Payment

The TSO shall invoice CTR Holders with the Capacity Cost and CTR Holders shall pay as follows:

- (a) The Capacity Cost from Annual Auctions shall be settled prior to usage on a monthly basis. The TSO shall invoice the CTR Holder [ten (10) days] before the start of each month in the annual period and the payment shall be due and payable [three (3)] days before the start of the each month in the annual period;
- (b) The Capacity Cost from Monthly Auctions shall be settled on a monthly basis. The TSO shall invoice the CTR Holder [ten (10)] days before the start of each month and the payment shall be due and payable three (3) days before the start of the applicable month; [Need to determine date of Monthly Auction – this timing assumes a mid-month auction for the following month.]
- (c) The Capacity Cost from Daily Auctions shall be settled after usage on a monthly basis. The TSO shall invoice the CTR Holder no later than the 10th calendar day of such month following the month that the Daily Auctions took place and payment shall be due not later than the 20th calendar day of such month.

Invoices shall be sent to the CTR Holder at the address indicated in the Statement of Acceptance or such modified address as the CTR Holder may request in writing. The TSO shall send the invoice in advance by fax or e-mail.

9.1.2 Invoice Disputes

In the event that a CTR Holder disputes an invoice, it shall notify the TSO of any claims by registered mail to the TSO with acknowledgement of receipt within seven (7) Calendar Days of the invoice's date of issue. The registered letter shall contain a detailed description of the objection. The CTR Holder shall pay any amounts invoiced that are not in dispute within the time periods specified above. Beyond this dispute period, the invoice shall be deemed to have been accepted by the CTR Holder.

The TSO shall review the CTR Holder's objection and inform the CTR Holder of its decision. The CTR Holder shall pay any amounts determined to be due to the TSO within seven (7) days of the receipt of the TSO's decision. In the event the TSO denies the CTR Holder's objection, the CTR Holder may, at its option, request that GNERC review and make a determination on the matter.

A claim in no way relieves the CTR Holder from the obligation to pay the invoice in accordance with the terms described hereto. In the event that the claim is denied, the CTR Holder shall pay interest on any withheld amounts.

9.1.3 Payment Conditions

The CTR Holder shall pay the TSO the amounts invoiced, by bank transfer to the account specified by TSO in Appendix 5 of these Auction Rules. The CTR Holder shall pay any bank charges relative to the settlement of the invoice.

The CTR Holder shall ensure that its bank transmits the corresponding invoice number with the payment order.

9.1.4 Late Payment

Payment is deemed to have been made on the day on which it appears on TSO's bank statement, provided that the CTR Holder and its bank have specified a correct invoice reference number. The CTR Holder is responsible for anticipating bank processing and payment registration times.

9.1.5 Interest on Arrears

If the amounts invoiced are not paid in full by the specified payment deadline, then such amounts shall be subject to interest without any further notification to the CTR Holder.

The rate of interest, determined on the day on which the invoice is sent, is equal [Insert relevant interest rate]. This interest is calculated from the first day following the specified payment deadline until the date on which the invoice is paid in full.

In case of late payments by TSO the rate of interest, as determined above, shall be applied.

9.2 PAYMENTS BY THE TSO TO CTR HOLDERS

The TSO shall pay to the CTR Holder on or prior to the 25th day of the calendar day of month of the following such occurrences:

- (a) The valuation of any Annual or Monthly CTR curtailments for safety or system reliability reasons linked to the safety of the power system or for circumstances that constitute Force Majeure;
- (b) The valuation of the curtailments of Daily CTRs for circumstances that constitute Force Majeure;
- (c) The valuation of the Use It or Sell It CTRs resold in the Daily Auctions

9.3 EXCLUSION OF SETOFF

A CTR Holder is not entitled to offset any debts that arise in connection with an Auction to any claim on the TSO, whether or not arising out of an Auction. Claims of the TSO can only be set off against claims of the Bidder that are uncontested or legally enforced.

Bidders accept by participating in the Auctions that they can only be discharged of their debts through payment to TSO. Bidders waive the right to offset any debts that arise in connection with an Auction to claims that those CTR Holders have against TSO, whether or not arising out of an Auction.

9.4 INFORMATION AND NOTICES

Any notice given under these Auctions Rules shall be in writing and must be addressed to TSO at the address shown in Appendix 5, except where these Auction Rules provide otherwise.

9.5 LIMITATION OF LIABILITY

The TSO shall not be liable to a Bidder or to a third party for any damages resulting from a Bidder's participating or not being able to participate in an Auction or in a CTR Transfer or in a CTR Resale, or from the Results of the Auction and/or CTR Resale and/or CTR Transfer; or from an Auction not being held or cancelled and a Bidder shall hold harmless and indemnify TSO, in respect of claims regarding such damages from third parties.

The TSO shall provide the CTRs awarded by the Auction and/or the CTR Transfer and/or a CTR Resale within the scope of its possibilities. This provision is subject to the technical possibility of transmitting electricity, which can be affected by Force Majeure, unexpected external influences (e.g. extreme load flow changes) or other serious operational conditions, caused by circumstances that do not constitute a Force Majeure event. The impairment shall only be remedied by technically/ economically feasible and appropriate actions complying with the relevant national and international requirements.

The TSO do not guarantee completion of the Auction. The Auction may be postponed, interrupted or cancelled especially in the event of technical problems with the Auction process, without any obligation of TSO to compensate the Bidders.

The TSO shall only be liable for damage or loss caused to Bidders if it is the result of intent or gross negligence or culpable dereliction of an essential duty under these Auction Rules. In all the above cases, the TSO's liability is limited only to the direct (actual) and documented damages. There is no TSO liability whatsoever for any consequential damages. The Bidder shall only be liable for damage or loss caused to the TSO if it is the result of intent or gross negligence or culpable dereliction of an essential duty under these Auction Rules. In all the above cases, the Bidder's liability shall be limited to direct (actual) and documented damages. There is no Bidder's liability whatsoever for any consequential damages. In no way shall the awarding of CTRs pursuant to these Auction Rules be considered or construed to mean or imply that the Bidder is entitled to have electricity transports carried out, or that transport failures or restrictions are or imply a failure to supply Interconnection Capacity which has been awarded in an Auction.

The TSO does not assume responsibility for the timely arrival of Bids and/or Transfer Notifications and/or Resale Notifications in time.

9.6 CONFIDENTIALITY

The TSO shall treat all information disclosed pursuant to these Auction Rules as confidential and shall refrain from disclosing such information to any third party without the prior consent of the Bidder concerned. Confidential information shall include all information delivered in writing and designated as "Confidential", or commercially sensitive information disclosed other than in writing.

The above paragraph shall not apply to disclosure of information to governmental, regulatory authorities and courts having jurisdiction on the above matters insofar as such disclosure is mandatory, nor to the disclosure of information to a court-of-law or an arbitrator insofar as such disclosure is ordered by the court or the arbitrator or is necessary for supporting a claim or defending the TSO against a claim.

The provisions of this article shall not apply to any information disclosed to TSO if:

- (a) The information was public knowledge prior to such disclosure or, after such disclosure, becomes public knowledge through no fault of TSO;
- (b) It was known to the TSO before that disclosure and was not covered by a confidentiality obligation;
- (c) After the information is received by the TSO it is received from a third party owing no obligation of secrecy to the respective Bidder in respect to such information.

9.7 SEVERABILITY

If any part or provision of the Auction Rules and/or its Appendices are or become invalid, illegal, void and/or unenforceable, the remaining part(s) shall continue to be valid and enforceable and shall not be affected thereby. Any invalid, illegal, void and/or unenforceable part(s) or provision(s) shall be replaced by valid, legal and/or enforceable part(s) or provision(s) in order to achieve the intended economic and legal effect as far as possible.

9.8 DISPUTES AND APPLICABLE LAW

Any dispute arising out of or in connection with these Auction Rules or in respect of the Auctions for the Allocation and Assignment of CTRs shall be settled by the Georgian National Energy and Water Supply Commission ("GNERC"). The place of arbitration shall be the offices of GNERC in Georgia. The language to be used in the arbitration proceedings shall be [Georgian?].

Any dispute arising out of or in connection with these Auction Rules or related to their violation, termination or nullity shall be referred to, governed and finally resolved exclusively by the Georgian law.

The provisions of this Article constitute an irrevocable consent by the Parties to any proceedings in terms hereof and no Party shall be entitled to withdraw there from or claim at any such proceedings that it is not bound by such provisions.

9.9 FORCE MAJEURE

Force Majeure means any event or situation beyond the reasonable control of a Party, and not due to a fault of such Party, which cannot be avoided or overcome with reasonable foresight and diligence, which cannot be solved by measures which are from a technical, financial and/or economic point of view, reasonably possible for the Party, and which makes it impossible for such Party to fulfill temporarily or definitively, its obligations hereunder in accordance with the terms of the Auction Rules. The Party which invokes Force Majeure shall send the other Party notification describing the nature of Force Majeure and its probable duration. The affected obligations, duties and rights of a Party subject to the Force Majeure shall be suspended from the beginning of the Force Majeure. Allocated Capacities that have been paid for and which become subject to a Force Majeure shall be reimbursed for the period of that Force Majeure.

The Party can in no circumstances be held responsible or held liable to pay any compensation for damage suffered due to the non-performance or faulty performance of all or part of its obligations, when such non-performance or faulty performance is due to an event of Force Majeure.

The Party which invokes Force Majeure shall make every possible effort to limit the consequences and duration of the Force Majeure.

If a Force Majeure event lasts for more than thirty (30) Days, the TSO may suspend the Entitlement of the Bidder and/or Bidder may request the withdrawal of its Entitlement by sending notification by registered mail with acknowledgement of receipt, with due explanation. The withdrawal or suspension of Entitlement shall take effect on the date of receipt of the said Notification.

9.10 AMENDMENTS

The present Auction Rules shall be amended according to the following procedure:

9.10.1 Amendments Due to Technical and Legal Requirements

These Auction Rules are subject to the technical and legal conditions at the time at which they take effect. In the event that there is a change in law or regulation, any rules imposed (as the case may be) by Competent Authorities at national level which have an effect on these Auction Rules, notwithstanding any other provision of these Auction Rules, the Auction Rules shall be amended accordingly.

9.10.2 Amendments of the Auction Rules

TSO may propose amendments to these Auction Rules subject to review and approval by GNERC.

Bidders may propose amendments to the Auction Rules. Every proposal should be sent by registered mail with acknowledgement of receipt, containing a description of the proposed amendment and its merits. The TSO, within ten (10) Working Days starting from the date of acknowledgement of receipt, shall confirm or refuse the acceptability of the proposal, providing a justification for the decision that shall be sent both to the Bidder and to GNERC.

9.10.3 Auction Rules Approval

The amended version of the present Auction Rules shall be submitted to GNERC for approval. Within a period of twenty (20) Working Days following the last decision of GNERC, the TSO shall:

- (a) Draft the amended definitive version of the Auction Rules;
- (b) Publish on its Website the amended final version of the Auction Rules and its effective date;
- (c) Notify each Bidder that an amended version of the Auction Rules is available on its Website.

Amendments of the present Auction Rules have no impact on the validity of the Statement of Acceptance signed by the Bidder. This Statement of Acceptance continues to be in force and includes acceptance of the modifications made to the Auction Rules, without prejudice to the Bidder's right to deregistration in accordance with the Auction Rules.

9.11 ACKNOWLEDGMENT OF RECEIPT

Any correspondence sent by the TSO regarding Auction Rules via email is considered as delivered to the recipient at the date and time that the electronic mail of TSO states that the message was transmitted.

Any correspondence sent by the TSO regarding Auction Rules via fax is considered as delivered to the recipient at the date and time stated in the transmission report issued by the fax machine of the TSO.

Any correspondence sent by the TSO regarding Auction Rules via registered mail is considered as received on the date and time that the letter was served.

10.0 APPENDIX 1

10.1 STATEMENT OF ACCEPTANCE

Bidder (Bidder):

(Name, Position, Address)

We hereby declare our intention to participate in the Auction of available Interconnection Capacity for electricity transfers from Georgia to Turkey. We fulfill all participation requirements of the Capacity Allocation Auction Rules for the Akhaltsikhe-Borchka Interconnection between Greece and Appendices and Auction Specifications ("Auction Rules"). We confirm that we:

- (a) Are a Qualified Enterprise in Georgia [Are there any other license requirements to be an exporter?];
- (b) Have executed all relevant contracts with the TSO, including the contracts for access to the transmission system;
- (c) Are not in default nor have outstanding debts to the TSO beyond required payment dates regarding invoices arising from previous Auctions, for access to the transmission system, and for other activities, and have not been precluded from participating in Auctions due to deregistration, suspension, or exclusion;
- (d) Have an executed agreement with a valid Counterparty in Turkey regarding Nomination of Schedules according to the Auction Rules (attached hereto);
- (e) Not be under bankruptcy or liquidation proceedings.

We have read and fully and unconditionally accept to abide and to be bound by all rules and regulations and Information Technology requirements of the Auction Rules which have been published on the TSO Website and which are in force at the time of the relevant Auctions. We acknowledge that our admission to participate in the Auction may be withdrawn in case regulations of the Auction Rules are breached. We shall provide all securities and guarantees required by the Auction Rules. We hereby declare that we have been lawfully and duly incorporated as per the laws of Georgia, we are in good standing and we validly operate under the laws of the Georgia. Furthermore, we hereby guarantee that there is no condition under the laws of Georgia or these Auction Rules that prevents us from participating in the Auctions and performing our obligations in respect thereof. We undertake to directly inform the TSO in case of any change occurred in the company's status as declared herein. We expressly authorize the TSO to publish the name of our company in case of assignment of CTRs through Auctions on the Auction Website. We hereby accept that any dispute arising out of or in connection with the Auction Rules shall be settled by the Georgian National Energy and Water Supply Commission. We hereby accept that any dispute arising out of or in connection with these Auction Rules or related to their violation, termination or nullity shall be referred to, governed and finally resolved exclusively by Georgian law.

Date

Name and Position

Duly authorized to fulfill this
function. _____

Signature

11.0 APPENDIX 2

11.1 BIDDER CONTACT INFORMATION

Company name

EIC code

Address

Zip code

Place

Country

Telephone number

FAX number

E-mail address

Contact person General

Telephone number

Mobile phone number

FAX number

E-mail address

Contact person Operational

Telephone number

FAX number

E-mail address

Contact person Financial

Telephone number

Mobile phone number

FAX number

E-mail address

VAT-number

Invoice address

Postal address

Zip code

Place

Country

Authorized representative(s)

We confirm to the Auction Office that the above information is true.

8.0 ANNEX B: DRAFT AUCTION RULES PROPOSED BY GSE

SPECIAL AUCTION RULES

FOR THE NEW CROSS BORDER TRANSIT (INTERCONNECTION) LINE TRANSMISSION CAPACITY ALLOCATION /REALLOCATION

Article 1. General Provisions

1. The Special Auction Rules for allocation/reallocation of the transmission capacity of the new cross border transit (interconnection) line (hereinafter referred to as the Auction Rules) are developed in compliance with the Electricity (Capacity) Market Rules approved by Order N 77 (August 30, 2006) of the Minister of Energy of Georgia. The Auction Rules define the grounds, specificity and procedures for auctions to be conducted for allocation/reallocation of the transmission capacity of the new cross border transit (interconnection) line (hereinafter – the New Power Transmission Line) in compliance with the priority order set in the Market Rules (Article 141, Paragraph 91) for electricity export purposes.
2. The Auction Rules describe the requirements to be met by exporters for participation in annual, monthly and daily auctions, as well as the principles of capacity allocation by means of an auction, auction procedures and responsibilities of the participants.
3. The auctioning mechanism is not motivated by commercial interests, but is intended to provide a means of managing congestion on interconnector based on market mechanisms. The Auction Rules shall be used only for allocation of the transmission capacity of the NPT on a yearly and monthly basis. The auction is in respect of capacity only. Participants can invoke no other right than that capacity is made available to them in accordance with the provisions set out in the Auctioning Rules.
4. The Auction Rules are based on the principle that the auction results shall be mandatory for participants which means that immediately upon identification of the auction winner the obligations of the Dispatch Licensee and the auction winners become irrevocably effective (in compliance with the Auction Rules and the Application Conditions).

Article 2. Definition of Terms and Expressions

1. Terms and expressions used in these Auction Rules shall have the following meanings:
 - a) The New Line Transmission Capacity- means the total transmission capacity of the New Power Transmission Line which meets the safety standards set by the relevant transmission systems for active power flows during a certain period.
 - b) Unavailable Capacity - means part of the New Power Transmission Line capacity which, based on an agreement between the system operators of the neighboring countries, is not available for exporters due to the specific technical and safety problems that cannot be immediately addressed.
 - c) Available Capacity - means part of the New Power Transmission Line capacity which is offered to exporters. The available capacity is calculated by deducting the unavailable capacity from the total transmission capacity of the New Power Transmission Line;
 - d) Participant- an exporter whose Application for Available Capacity was registered on the web page;

- e) Monthly Auction – means an auction held for the period starting from the first day of the month through the last day of a month (or for certain days of a calendar month), before the start of this period;
 - f) Annual Auction - means an auction held for the period starting from the first day of the year through the last day of a year (or for certain month(s) of a calendar year), before the start of the calendar year;
 - g) Application—an Exporter’s offer for receiving transmission rights, expressed in GEL per 1 MW/h, and submitted to an annual or monthly auction in compliance with the requirements of the Auction Rules;
 - h) The Final Price – the price of 1 MW/h transmission right defined based on the auction results and payable through the Auction by the auction winners;
 - i) Transmission Right – the right to use the available capacity for transmission of electricity (expressed in MW);
 - j) Auction Winner - the auction participant who receives the transmission right as a result of an auction;
2. Other terms and expressions used in these Auction Rules shall have the same meaning as defined in the Law of Georgia on Electricity and Natural Gas and Market Rules,

Article 3. Priority Groups for Export of Electricity by means of the New Transmission Line and Grounds for Conducting an Auction

1. For the purpose of electricity export by means of the New Power Transmission Line, Priority Groups shall be defined based on the following descending order:
 - (a) Electricity export or import in emergency situations;
 - (b) Export of electricity generated by power plants using renewable energy sources and power plants constructed in Georgia after the year 2010 (including hydro power plants), if started up less than 10 years ago and conditional that there is an Agreement on Transmission and Dispatch Services signed in compliance with Article 141, Paragraph 9 of the Market Rules;
 - (c) Export of electricity generated by other power plants working in Georgia or export of electricity imported to Georgia (transit, re-export) and not provided for in subparagraphs (a) and (b) of this Paragraph.
2. The Dispatch Licensee shall conduct an auction in compliance with the priority groups specified in Paragraph 1 of this Article (hereinafter – the Priority Groups) if during allocation of the available transmission capacity for a certain period among exporters, it becomes clear that the capacities requested by the exporters from a certain priority group (based on the priority order) exceed the capacity available during that particular period.

Article 4. Monthly and Annual Auctions

1. An auction will take place before the start of a reporting year, if it becomes clear that during certain periods of the reporting year the available capacity will not be enough for meeting the demand of exporters of the corresponding priority groups (based on the priority order).
2. A monthly auction will take place if for one month (several months or several days of a month) of one calendar year:
 - (a) Some capacity has become available but it is not enough to satisfy the demand of all exporters belonging to the corresponding Priority Group;

- (b) If the New Line Transmission Capacity is limited during a calendar year as a result of specific circumstances provided for in the legislation or agreement between the authorized Dispatch Companies of Georgia and the neighboring country, and the remaining capacity is no longer enough for any of the Priority Groups (in accordance with the priority order) for a specific time, an auction will be announced for the period (calendar month(s) of a calendar year or days of the month) during which the limitation is in place. In this case, the capacities that have already been allocated to exporters will be annulled and a new auction will be announced for the capacity left after the limitation.
- 3. Information about an auction must be publicly announced which means that the information must be published on the website www.gse.com.ge:
 - (a) in case of an annual auction: working days prior the beginning of the reporting year;
 - (b) in case of a monthly auction: 10 working days prior the beginning of the reporting month 4+1+1(the auction day)+4.
- 4. If after an auction any of the auction winners abandons the allocated rights, the Dispatch Licensee will offer the right for the available transmission capacity to the member of the corresponding priority group who offered the next highest price and who will agree to pay the Final Price fixed at the auction. If such a participant refuses to accept the available capacity or accepts only its part, the remaining unallocated capacity will be offered to the next participant of the auction, etc.

Article 5. Auction Webpage

- 1. The Dispatch Licensee shall insure proper operation and management of the auction webpage.
- 2. The auction webpage shall provide free access to the following documents and information:
 - (a) Electricity (Capacity) Market Rules approved by Order N 77 (August 30, 2006) of the Minister of Energy of Georgia;
 - (b) Auction Rules;
 - (c) Transmission capacity of the New Power Transmission Line;
 - (d) Available capacities for the relevant period;
 - (e) Forms and samples of documents that must be filled by exporters;
 - (f) New Line Transmission Capacity which has already been allocated within renewable energy projects based on long term contracts;
 - (g) Announcements about monthly auctions (if any);
 - (h) Names, positions, telephone numbers, fax numbers, and email addresses of contact persons;
 - (i) Auction results, with the list of auction winners, specifying the priority group, the available capacities allocated to them and the Final Price;
 - (j) Any other information related to auctions and considered necessary by the Dispatch Licensee, and publishing such information is not prohibited by the law

Article 6. Exporters' Applications

- 1. Within 4 working days after the Dispatch Licensee publishes information provided for in Paragraph 4.34 of these Rules, the exporter willing to participate in the auction get registered on the Dispatch Licensee's webpage by means of the available application and upload an application filled in compliance with the Form provided for in Appendix N1 of the Auction Rules.
- 2. The exporter's application shall contain the following information:

- a) Requisites: name, identification code, (in case of an individual person – Personal Number), actual address, contact data;
 - b) The Priority Group to which the electricity intended for export belongs (specifying electricity [capacity] producers and corresponding generation facilities). If the exporter intends to export electricity belonging to different Priority Groups, the exporter shall provide in the Application break down of the total requested capacity by such Priority Groups, otherwise the application will not be reviewed;
 - c) Desired transmission capacity of the New Transmission Line which shall not exceed the published available capacity and/or the capacity purchased based on a Direct Contract on Electricity Export; breakdown of the requested transmission capacity shall be provided according to the specific reporting period:
 - i. in case of an annual auction – minimum, maximum and average capacities for the month(s) within the reporting year;
 - ii. in case of a monthly auction – typical hourly schedule within the reporting month;
 - d) Offered price –per 1 MW/h, without VAT;
3. The following documents shall be attached to the exporter's application:
- a) A document proving registration of the wholesale market participant;
 - b) Information about any limitations under the public law as well as information provided by authorized organizations proving that the exporter is not going through a bankruptcy proceeding or liquidation process (a scanned version of the corresponding document must be uploaded).
4. The exporter has a right to change the uploaded application before the expiry of the term defined in Paragraph 1 of this Article.

Article 7. Legal Consequences of Uploading an Application; Registration; Standard Agreement Conditions

- 1. By uploading an application, the exporter confirms his agreement with the Auction Rules and requirements.
- 2. Within 1 working day after expiry of the term defined in Paragraph 1 of this Article 6 of these Rules, the Dispatch Licensee checks the submitted application and attached documents. The application will be registered and participates auction unless there are the following grounds to refuse registration:
 - a) The Application does not meet the requirements of the Auction Rules and/or the active legislation or the Application is incomplete;
 - b) Provided information clearly shows that the exporter is under a bankruptcy regime or liquidation process and/or there is some limitation under the public law;
 - c) The exporter has overdue liability to the Dispatch Licensee and/or owner of the New Transmission Line,
- 3. In cases provided for in Paragraphs 2(a) through 2(c) of this Article, the Dispatch Licensee refuses registration based on the appropriate justification and therefore the Exporter will not be admitted to the auction.
- 4. The Dispatch Licensee publishes the list of auction participants whose applications are admitted to the auction
- 5. The exporter has a right to recall his application before the day of auction day (minus the auction date)

6. By registering the application the exporter automatically becomes a party of a standard Agreement on Participation in an Auction and undertakes the responsibility for its proper implementation.
7. The standard agreement form is given in Appendix N 2.
8. Exporter's auction registration shall be valid only for the particular Auction. When a new auction procedure starts, the interested exporters shall register again and from the very beginning go through all the procedures required under the Auction Rules.

Article 8. Rules for Conducting n Auction and Decision Making

1. The Dispatch Licensee shall consider the participants' Applications on the auction day and publish auction results on the following working day. At the same time the application is considered and the decision is made as follows:
 - a) The volume allocation starts from the respective group's participant that made the highest bid in the application The Final Price shall be the lowest price per 1 MW offered by the winner participants. Moreover, if more than one participant makes such lowest bid and the volume left after the satisfaction of the participants that made the highest bid is not sufficient to satisfy the exporters that made the lowest bid, the available volume is distributed among the latter proportionally with their requirements.

Article 9. Announcement of Auction Results

1. Auction results shall be published on the day following the Auction day.
2. 2. Auction results are published through public announcement, i.e. posting respective information on the website www.gse.com.ge.

Article 10. Settlement

The winning participant will reimburse a New Power Transmission Line capacity reservation fee based on the final price. The payment terms and conditions shall be defined by the New Power Transmission Line Capacity Reservation Agreement made between the Auction Winner and the New Power Transmission Line owner.

Article 11. Responsibility

1. If the Auction Winner does not use the capacity of a New Power Transmission Line allocated to it, it shall be held liable in accordance with the acting legislation and respective agreement signed with the owner of a New Power Transmission Line.
2. If an exporter Auction Winner refuses to sign the agreement on the reservation of the New Power Transmission Line capacity with the New Power Transmission Line owner, it shall pay a compensation to the Dispatch Licensee; the compensation amount is calculated through multiplying the set dispatching tariff by the capacity allocated to the Auction Winner, calculated for one calendar month.
3. All the exporters to which New Power Transmission Line capacity has been allocated according to these Rules shall be responsible under this Article.
4. The Dispatch Licensee shall conduct a special auction of the New Cross-Border Transit (Interconnection) Line transmission Capacity Allocation /Reallocation strictly in compliance with the requirements of the active legislation and these Rules. Failure to fulfill this obligation may lead to the material responsibility of the Dispatch Licensee in compliance with the active civil legislation.

Article 12. Limitation of Liability, Relieve from Responsibility

1. The Dispatch Licensee shall not be liable to Bidders, the New Power Transmission Line owner or a third party, for any damage resulting from a any Exporter's participation, or/and allocation of an available volume, or/and Auction results, or/and from an Auction not being held, interrupted or/and suspended.
2. The Bidder shall indemnify the Dispatch Licensee against any disputes set forth in Paragraph 1 of this Article.
3. The Dispatch Licensee shall be liable only for the direct loss inflicted intentionally.
4. The Participant, Dispatch Licensee and the New Power Transmission Line owner shall be released from the obligations undertaken under these Rules in case of the presence of one of the following circumstances, for the period of existence of such circumstances:
 - a) Force-majeure – overpowering force which prevents the parties from performing their contractual obligations, is not caused by the parties and cannot be controlled by them;
 - b) Emergency in the power system of Georgia or/and the destination country, which prevents the parties from performing obligations undertaken under the Auction Rules;
 - c) Reduction or suspension of receiving electricity by the export destination country.

Article 13. Confidentiality

1. The Dispatch Licensee shall treat as confidential all the information indicated by a Bidder as confidential and that came to the knowledge of the Dispatch Licensee through the participation in the auction process, except for the following cases:
 - a) There is either a decision or requirement of a competent body to submit this information;
 - b) The information has entered the public domain according to the established order;
 - c) The information was in the possession of the Dispatch Licensee, without restriction as to its disclosure, before receiving it from the Bidder;
 - d) After receiving the confidential information, the same information was received by the Dispatch Licensee from a third party as non-confidential.

Article 14. Transitional Provisions

1. The Auction Rules and related relations, disputes are regulated in accordance with Georgian legislation;
2. These Rules does not extend to the dispatch and transmission service tariffs. The amount of tariffs is set and the payment is made in accordance with Georgian legislation.

USAID Hydropower Investment Promotion Project (USAID-HIPP)

Deloitte Consulting Overseas Projects - HIPP

11 Apakidze Street, Tiflis Business Center

Tbilisi, 0171, Georgia